

## NEW ISSUE

Ratings†		
Fitch	Moody's	S&P
AAA	Aaa	AAA

*The opinion of Bond Counsel will state the following, under existing law: Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes, assuming continued compliance by the City with the Internal Revenue Code of 1986. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; interest on the Bonds is taken into account, however, in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations. Interest on the Bonds is exempt from Massachusetts personal income taxes and the Bonds are exempt from Massachusetts personal property taxes. See "Tax Exemption" herein.*



# CITY OF BOSTON, MASSACHUSETTS

## \$162,015,000

### GENERAL OBLIGATION BONDS AND REFUNDING BONDS

#### 2003 SERIES A

Dated: February 1, 2003



Due: February 1, as shown below

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2004	\$6,865,000	3.000%	1.05%	2014	\$10,010,000	5.000%	3.94%*
2005	8,540,000	2.500	1.40	2015	6,345,000	4.000	4.12
2006	9,010,000	2.250	1.70	2016	6,500,000	5.000	4.14*
2007	9,710,000	2.625	2.13	2017	6,685,000	4.250	4.30
2008	9,885,000	5.000	2.58	2018	6,865,000	5.000	4.31*
2009	9,195,000	4.000	2.95	2019	6,120,000	5.000	4.39*
2010	9,440,000	4.000	3.25	2020	6,340,000	4.500	4.57
2011	9,700,000	5.000	3.50	2021	6,560,000	5.000	4.55*
2012	10,015,000	5.000	3.68	2022	6,805,000	5.000	4.63*
2013	10,355,000	5.000	3.82	2023	7,070,000	5.000	4.69*

(Accrued interest from February 1, 2003 to be added.)

The Bonds will be issued by means of a book entry system evidencing ownership and transfer of the Bonds on the records of The Depository Trust Company and its participants. Details of payment of the Bonds are set forth in this Official Statement and the Official Notice of Sale dated February 5, 2003 (the "Official Notice of Sale").

Interest on the Bonds will be payable on August 1, 2003 and semiannually on each February 1 and August 1 thereafter until maturity or redemption prior to maturity. The Bonds will be subject to redemption as more fully described herein under "The Bonds." The Bonds will be issued for the purposes of (i) advance refunding certain outstanding general obligation bonds of the City of Boston, Massachusetts (the "City") as more fully described herein under "Plan of Refunding," and (ii) for various municipal purposes, as more fully described in Appendix C hereto.

The Bonds will be valid general obligations of the City for the payment of the principal of and interest on which all taxable property in the City is subject to the levy of ad valorem taxes without limit as to rate or amount as more fully described herein under "Payment of and Security for the Bonds."

The regularly scheduled payments of principal and interest on the Bonds when due will be guaranteed by a financial guaranty insurance policy to be issued concurrently with the delivery of the Bonds by MBIA Insurance Corporation.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds were sold by the City after competitive bidding pursuant to the Official Notice of Sale, and are offered, subject to the final approving opinion of Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel to the City, and to certain other conditions described herein. Public Financial Management, Inc., Boston, Massachusetts, serves as Financial Advisor to the City. JPMorgan Chase Bank will act as paying agent and escrow agent for the Bonds. It is expected that the Bonds will be available for delivery at The Depository Trust Company in New York, New York on or about February 26, 2003.

February 12, 2003

† See "Credit Ratings."

\* Priced to the February 1, 2013 Optional Redemption Date. See "The Bonds—Redemption Prior to Maturity—Optional Redemption."

No dealer, broker, salesperson or other person has been authorized by the City of Boston or the original purchasers of the Bonds to give any information or to make any representations in connection with the Bonds or the matters described herein, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information contained herein has been furnished by the City and certain information has been obtained from other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness and is not to be construed as a representation of the underwriters of the Bonds or, as to information from other sources, of the City. The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement, nor any sale made hereunder, shall, under any circumstances, create any implication that there has been no change in the matters described herein since the date hereof. This Official Statement is submitted in connection with the sale of the Series A Bonds and may not be reproduced or used, in whole or in part, for any other purpose.

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## New Hampshire Residents:

In making an investment decision investors must rely on their own examination of the issuer and the terms of the offering, including the merits and risks involved. These securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

**OFFICIAL STATEMENT**  
*of the*  
**CITY OF BOSTON, MASSACHUSETTS**  
*relating to*  
**\$162,015,000**  
**GENERAL OBLIGATION BONDS AND REFUNDING BONDS 2003 SERIES A**

**INTRODUCTION**

This Official Statement (which includes the cover page and Appendices hereto) provides information concerning the City of Boston, Massachusetts (the “City”), and the \$162,015,000 of General Obligation Bonds and Refunding Bonds, 2003 Series A (the “Bonds”) to be issued by the City as described herein. Certain credit factors concerning the Bonds are described throughout this Official Statement, which should be read in its entirety. This Official Statement speaks only as of its date and the information contained herein is subject to change after this date.

The Bonds will be general obligations of the City, for the payment of the principal of and interest on which the full faith and credit of the City will be pledged. The Bonds are payable from ad valorem taxes which may be levied on all taxable property in the City without limit as to rate or amount as more fully described under “Payment of and Security for the Bonds” below. The proceeds of the Bonds will be used for the purpose of advance refunding certain general obligation bonds of the City as more fully described herein under “Plan of Refunding,” and to fund capital projects, including projects to be financed in accordance with the City’s five-year Capital Plan. See “Financial Administration—Capital Budgeting.” The projects to be financed include the acquisition or construction of, or major renovation to, public buildings, school buildings, roadways, bridges and parks, the acquisition of certain departmental equipment, and certain neighborhood improvements.

**THE BONDS**

**Description**

The Bonds will be dated February 1, 2003 and will mature on February 1 of the years, and in the amounts, and will bear interest calculated on the basis of 30-day months and a 360-day year at the rates, shown on the cover page of this Official Statement. Interest on the Bonds will be payable on August 1, 2003 and semiannually thereafter on each February 1 and August 1, provided that if such day is not a business day, interest will be payable on the next business day.

The Bonds will be issued by means of a book-entry system, with bond certificates immobilized at The Depository Trust Company, New York, New York (“DTC”). Bond certificates will not be available for distribution to the public and will evidence ownership of the Bonds in principal amounts of \$5,000 or integral multiples thereof, with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. Interest on the Bonds will be paid on the interest payment dates or upon redemption, and principal of the Bonds will be paid at maturity or upon redemption, to DTC or its nominee as registered owner of the Bonds. Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC; transfer of principal and interest payments to beneficial owners by participants of DTC will be the responsibility of such participants and other nominees of beneficial owners. The record date for principal and interest payments will be the business day next preceding a debt service payment date. Accordingly, debt service will be payable to participants of DTC, as shown on the records of DTC and its participants, at the close of business on the day preceding such debt service payment date. The City will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants.

JPMorgan Chase Bank will act as paying agent and escrow agent for the Bonds (the “Paying Agent”).

**Redemption Prior To Maturity**

*Optional Redemption*

Bonds maturing on or before February 1, 2013 will not be subject to redemption prior to maturity. Bonds maturing on and after February 1, 2014 will be subject to redemption prior to maturity at the option of the City, on or after February 1, 2013, as a whole or in part at any time, in such order of maturity as the City may determine and by lot within each maturity as selected by DTC and its participants, at the par amount of the Bonds to be redeemed, plus accrued interest to the redemption date.

### *Notice of Redemption*

Notice of redemption of the Bonds, specifying the numbers and maturities of the Bonds or portions thereof to be redeemed and the redemption date, will be given not less than 30 days prior to the redemption date by notice mailed to DTC or its nominee, as registered owner of the Bonds. The City will not be responsible for mailing notices of redemption to anyone other than DTC or its nominee. Notice having been given, the Bonds or portions thereof called for redemption will become due and payable on the designated redemption date at par plus accrued interest. If on the redemption date monies are available for the redemption of the Bonds or portions thereof to be redeemed, then interest on such Bonds or portions thereof shall thereafter cease to accrue.

### **Book-Entry-Only System**

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of that maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions, in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the securities on DTC's records. The ownership interest of each actual purchaser of each security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in securities, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts the Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be

governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, its nominee, the Paying Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the City or the Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

#### **Replacement Bonds Upon Termination or Failure of the Book-Entry-Only System**

In the event that (a) DTC determines not to continue to act as securities depository for the Bonds, or (b) the Collector-Treasurer of the City determines that continuation of the book-entry system of evidence and transfer of ownership of the Bonds would adversely affect the interests of the Beneficial Owners of the Bonds, the City will discontinue the book-entry system with DTC. If the City fails to identify another qualified securities depository to replace DTC, the City will cause the Paying Agent to authenticate and deliver replacement Bonds in the form of fully-registered certificates.

### **AUTHORIZATIONS AND PURPOSES**

Pursuant to the statutory authorizations and under loan orders of the City Council effective on the dates in Appendix C, the proceeds of the Bonds will be issued: (i) for various municipal purposes in amounts aggregating \$75,000,000; (ii) to finance the \$33,500,000 acquisition price of the building located at 1010 Massachusetts Avenue, together with related parcels; and (iii) to permanently finance the City's \$25,000,000 Bond Anticipation Notes, 2003 Series A (the "2003 Series A Notes"). The proceeds of the 2003 Series A Notes were used to pay a portion of the costs incurred by the City for the construction of two new middle schools and one new elementary school. In addition, \$29,470,000 of the proceeds of the Bonds will be issued to advance refund certain of the City's outstanding general obligation bonds, as more fully described under "Plan of Refunding," below.

### **PLAN OF REFUNDING**

The Bonds are being issued in part to advance refund \$33,375,000 aggregate principal amount of the City's General Obligation Bonds 1993 Series A, dated September 1, 1993 (the "Refunded Bonds") which are subject to redemption prior to maturity. Upon delivery of the Bonds, the City will enter into a Refunding Escrow Agreement with JPMorgan Chase Bank (the "Escrow Agent"), to provide for the advance refunding of the Refunded Bonds. Upon receipt of the proceeds of the Bonds, the Escrow Agent will deposit in the Refunding Escrow Fund established under Refunding Escrow Agreement, an amount which will be invested

in direct obligations of the United States of America or obligations unconditionally guaranteed by the United States of America (“Government Obligations”) maturing in amounts, and bearing interest at rates sufficient without reinvestment to pay when due interest on, and upon redemption, the outstanding principal of and redemption premium on the Refunded Bonds. The Refunding Escrow Fund, including the interest earnings on the Government Obligations, is pledged for the benefit of the holders of the Refunded Bonds.

#### **Verification of Mathematical Accuracy**

Berens-Tate Consulting Group, will verify from information provided to them the mathematical accuracy as of the date of the closing on the Bonds of (i) the computation contained in the provided schedules to determine that the anticipated receipts from the Government Obligations and cash deposits, to be held in escrow, will be sufficient to pay, when due, the principal, interest and call premium requirements, if any, of the Refunded Bonds, and (ii) the computation of yield on the Government Obligations contained in the provided schedules used by Bond Counsel in its determination that the interest on the Bonds is excluded from gross income for federal income tax purposes. Berens-Tate Consulting Group will express no opinion on the assumptions provided to them, nor as to the exemption from taxation of the interest on the Bonds.

#### **PAYMENT OF AND SECURITY FOR THE BONDS**

The Bonds will be valid general obligations of the City, for the payment of the principal of and interest on which the full faith and credit of the City will be pledged. To the extent not paid from other legally available revenues of the City, the Bonds are payable from ad valorem taxes which may be levied upon all taxable property in the City without limit as to rate or amount.

Chapter 643 of the Acts of 1983 of the Commonwealth (the “Bond Procedure Act of 1983”) requires that the debt and interest charges on all general obligation indebtedness of the City (including the Bonds), regardless of the date of issue, if not otherwise provided for, be included in the City’s annual tax levy, regardless of Proposition 2½, the statewide property tax limit. The Bond Procedure Act of 1983 mandates assessment of taxes in excess of the Proposition 2½ levy limits to the extent that the debt service on City obligations exceeds the levy limit, with no allowance made for any other expenditures of the City. The provision would not, however, increase the levy limit applicable to the City to the extent that debt service expenses on City obligations to be funded from the levy are less than the applicable levy limit. See “City Revenues—Property Taxes—Proposition 2½.” Holders of City obligations do not have a statutory priority with respect to or a security interest in the portion of the tax levy attributable to such obligations. See “City Indebtedness—Classification of City Debt.”

In the opinion of Bond Counsel, the City is subject to suit on the Bonds, and courts of competent jurisdiction have power in appropriate proceedings to order payment of a judgment on the Bonds from available funds or, in the absence of available funds, to order the inclusion of the required amount in the next annual tax levy. In exercising their discretion as to whether to enter such an order, the courts could take into account all relevant factors, including the current operating needs of the City and the availability and adequacy of other remedies.

Payment of the principal and interest on the Bonds is not secured by or limited to a pledge of any particular revenue source of the City. Chapter 190 of the Acts of 1982 of the Commonwealth (the “1982 Funding Loan Act”) and the Bond Procedure Act of 1983 authorize the City to pledge to the payment of any of its general obligation notes or bonds all or any part of the revenues of the City derived from any tax, fee, distribution or reimbursement payable to the City (except distributions and reimbursements required by law to be specifically used for statutorily defined purposes), including state aid distributions and the proceeds of the City’s annual property tax levy. No obligations are currently outstanding which are secured by such a pledge. The Bond Procedure Act of 1983 also authorizes the City to issue special obligation bonds payable solely from the revenues of a revenue-producing facility, and Chapter 152 of the Acts of 1997, as amended (the “Convention Center Act”) authorizes the City to pledge certain excise receipts and other revenues of the City to the payment of bonds of the City issued under the authority of the Convention Center Act. The only special obligation indebtedness of the City outstanding as of July 1, 2002 was the City’s \$116,890,000 Convention Center Loan, Act of 1997, Special Obligation Bonds, Series A (the “Convention Center Bonds”) and the City’s \$140,630,000 Revenue Refunding Bonds, Boston City Hospital (FHA Insured Mortgage), Series A (the “1993 BCH Bonds”). The 1993 BCH Bonds were refunded by the City on August 13, 2002, by the City’s \$127,800,000 Special Obligation Refunding Bonds, Boston City Hospital Issue (the “2002 BCH Refunding Bonds”). See “City Indebtedness—Special Obligation Debt.” To the extent required for the payment of any such secured indebtedness, the revenues pledged to their payment would not be available to pay the Bonds.

Except to the extent specifically pledged to the payment of certain indebtedness, state aid distributions to the City are generally available for the payment of bonds or notes of the City, but, under certain circumstances, they may be unavailable to the extent such distributions are applied to the payment of “qualified bonds” issued by the City (none of which bonds have been issued), or to the extent that such distributions may be applied under state law to the satisfaction of unpaid assessments due the Commonwealth from the City for debt issued by the Massachusetts Bay Transportation Authority, the Massachusetts Water Resources Authority, or for obligations of the City issued to the Massachusetts Water Pollution Abatement Trust. See “City Indebtedness—Classification of City Debt.” State statutes also provide that certain parking meter receipts may be used only for parking and related purposes and, accordingly, monies derived from this source may be unavailable to pay general obligation bonds and notes issued for other purposes.

Section 19A of Chapter 44 of the General Laws provides, in part, that if the City is or is likely to be unable to pay principal of or interest on any of its bonds or notes when due, it shall notify the state Commissioner of Revenue. The Commissioner shall certify such inability to the state Treasurer. The state Treasurer shall pay the due or overdue amount by the later of three days after the certification or one business day prior to the due date. This payment is limited, however, to the estimated amounts distributable by the Commonwealth to the City during the remainder of the fiscal year. If, for any reason, any portion of the certified sum has not been paid at the end of the fiscal year, the state Treasurer shall pay it as soon as practicable in the next fiscal year to the extent of the estimated distributions for such fiscal year. The sums so paid shall be charged with interest and administrative costs against the distributions to the City. The foregoing provisions are not a pledge of the faith and credit of the Commonwealth. The Commonwealth has not agreed to maintain existing levels of state distributions and the law requiring the Commonwealth to use estimated distributions to pay debt service may be subject to repeal by future legislation. Moreover, adoption of the state’s annual appropriation act is often delayed beyond the beginning of the fiscal year, and estimated distributions which are subject to appropriation may be unavailable to pay local debt service until they are appropriated.

Enforcement of a claim for payment of principal of or interest on the Bonds would be subject to the applicable provisions of federal bankruptcy laws and to the provisions of other statutes, if any, hereafter enacted by Congress or the state legislature extending the time for payment or imposing other constraints upon enforcement insofar as the same may be constitutionally applied, and to the exercise of judicial discretion in accordance with equitable principles.

## **BOND INSURANCE**

The following information has been furnished by MBIA Insurance Corporation (the “Bond Insurer”) for use in this Official Statement. Reference is made to Appendix G for a specimen of the Bond Insurer’s policy.

The Bond Insurer’s policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Issuer to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Bond Insurer’s policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a “Preference”).

The Bond Insurer’s policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bonds. The Bond Insurer’s policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Bond Insurer’s policy also does not insure against nonpayment of principal of or interest on the Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Bond Insurer from the Paying Agent or any owner of a Bond the payment of an insured amount for which is then

due, that such required payment has not been made, the Bond Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Bonds or presentment of such other proof of ownership of the Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Bonds as are paid by the Bond Insurer, and appropriate instruments to effect the appointment of the Bond Insurer as agent for such owners of the Bonds in any legal proceeding related to payment of insured amounts on the Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

### **The Bond Insurer**

The Bond Insurer is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the “Company”). The Company is not obligated to pay the debts of or claims against the Bond Insurer. The Bond Insurer is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. The Bond Insurer has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by the Bond Insurer, changes in control and transactions among affiliates. Additionally, the Bond Insurer is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

The Bond Insurer does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and the Bond Insurer set forth under the heading “Bond Insurance” and Appendix G—Specimen Bond Insurance Policy. Additionally, the Bond Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds.

The Financial Guarantee Insurance Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

### **Available Information**

The following documents filed by the Company with the Securities and Exchange Commission (the “SEC”) are incorporated herein by reference:

- (1) The Company’s Annual Report on Form 10-K for the year ended December 31, 2001; and
- (2) The Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2002.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company’s Annual Report on Form 10-K for the year ended December 31, 2001, and (2) the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2002), are available (i) over the Internet at the SEC’s web site at <http://www.sec.gov>; (ii) at the SEC’s public reference room in Washington D.C.; (iii) over the Internet at the Company’s web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.



As of December 31, 2001, the Bond Insurer had admitted assets of \$8.5 billion (audited), total liabilities of \$5.6 billion (audited), and total capital and surplus of \$2.9 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2002, the Bond Insurer had admitted assets of \$9.0 billion (unaudited), total liabilities of \$5.9 billion (unaudited), and total capital and surplus of \$3.1 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

#### **Financial Strength Ratings of the Bond Insurer**

Moody's Investors Service, Inc. rates the financial strength of the Bond Insurer "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of the Bond Insurer "AAA."

Fitch Ratings rates the financial strength of the Bond Insurer "AAA."

Each rating of the Bond Insurer should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Bond Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. The Bond Insurer does not guaranty the market price of the Bonds nor does it guaranty that the ratings on the Bonds will not be revised or withdrawn.

## SCHEDULE OF DEBT SERVICE PAYMENTS

The following table sets forth the gross debt service requirements on the City's general obligation bonds outstanding as of February 1, 2003 and on the Bonds.

### Schedule of Principal and Interest Payments (\$ in thousands)\*

<b>Fiscal Year Ending June 30,</b>	<b>Bonds Outstanding As of February 1, 2003 <sup>(1)</sup></b>		<b>The Refunded Bonds</b>		<b>The Bonds Described Herein</b>		<b>Total Principal and Interest</b>
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest <sup>(2)</sup></b>	
2003 <sup>(1)</sup> .....	\$ 1,385	\$ 5,738	\$ —	\$ —	\$ —	\$ —	\$ 7,123
2004 .....	81,925	35,123	—	(791)	6,865	6,940	130,062
2005 .....	75,860	31,005	(2,300)	(2,764)	8,540	6,734	118,307
2006 .....	63,067	27,550	(2,420)	(2,660)	9,010	6,520	102,299
2007 .....	61,746	24,555	(2,545)	(2,548)	9,710	6,318	98,468
2008 .....	56,022	21,695	(2,680)	(2,429)	9,885	6,063	89,788
2009 .....	54,688	19,065	(2,825)	(2,150)	9,195	5,569	84,624
2010 .....	51,549	16,566	(2,980)	(1,712)	9,440	5,201	78,846
2011 .....	47,155	14,278	(3,145)	(1,268)	9,700	4,823	72,028
2012 .....	45,350	12,054	(3,325)	(878)	10,015	4,338	67,807
2013 .....	40,935	9,971	(3,515)	(542)	10,355	3,837	61,125
2014 .....	34,925	8,074	(3,715)	(282)	10,010	3,320	52,332
2015 .....	30,805	6,552	—	(96)	6,345	2,819	42,501
2016 .....	27,450	5,116	—	—	6,500	2,565	41,631
2017 .....	23,675	3,895	—	—	6,685	2,240	36,495
2018 .....	20,415	2,842	—	—	6,865	1,956	32,078
2019 .....	17,245	1,886	—	—	6,120	1,613	26,864
2020 .....	12,565	1,171	—	—	6,340	1,307	21,383
2021 .....	7,860	581	—	—	6,560	1,022	16,023
2022 .....	3,765	188	—	—	6,805	694	11,452
2023 .....	—	—	—	—	7,070	354	7,424
<b>Totals .....</b>	<b>\$758,386</b>	<b>\$247,907</b>	<b>\$(33,375)</b>	<b>\$(10,506)</b>	<b>\$162,015</b>	<b>\$74,233</b>	<b>\$1,198,660</b>

\* Rows and columns may not add due to rounding.

(1) Includes principal and interest payments due with respect to the Refunded Bonds.

(2) The first interest payment due on the Bonds Described Herein includes accrued interest from February 1, 2003.

Source: City of Boston Auditing Department

### Rate of Principal Retirement

The City will retire the following amounts of principal of its outstanding direct general obligation long-term debt over the following respective periods:

<b><u>Fiscal Year Ended June 30</u></b>	<b><u>Amount (in thousands)</u></b>	<b><u>Percentage of Total Principal Amount Retired</u></b>
2003-2007 .....	\$310,843	35.0%
2008-2012 .....	288,043	32.5
2013-2017 .....	186,531	21.1
2018-2023 .....	<u>101,610</u>	<u>11.4</u>
Total .....	<u>\$887,027</u>	<u>100.0%</u>

Source: City of Boston Auditing Department

## THE CITY

The City, incorporated as a town in 1630 and as a city in 1822, exists under Chapter 486 of the Acts of 1909 and Chapter 452 of the Acts of 1948 of the Commonwealth which, as amended, constitute the City's Charter.

The Mayor is the chief executive officer of the City. Thomas M. Menino, the Mayor of the City, was reelected to serve a third four-year term from January 2002 through January 2006. The Mayor has general supervision of and control over the City's boards, commissions, officers, and departments. The portion of the City budget covering appropriations for all departments and operations of the City except the School Department and the Boston Public Health Commission, and for certain activities of Suffolk County, is prepared under the direction of the Mayor. Prior to his first elected term, Mayor Menino had served for approximately four months as acting Mayor. Prior to his service as acting Mayor, the Mayor served on the City Council. He served as Chairman of the City Council's Ways and Means Committee from 1988 to 1992, and was elected President of the City Council in 1993.

The legislative body of the City is the thirteen-member City Council. The City Council enacts ordinances and adopts orders, which the Mayor may either approve or veto. Ordinances and orders, except for orders for the borrowing or appropriation of money, may be enacted by the City Council over the Mayor's veto by a two-thirds vote. The City Council may reject or reduce a budget submitted to it by the Mayor, but the City Council may not increase a budget. For a description of the budget process, see "The City—Budget Process" herein.

The members of the City Council, all of whose current terms will end in January 2004, are set forth below.

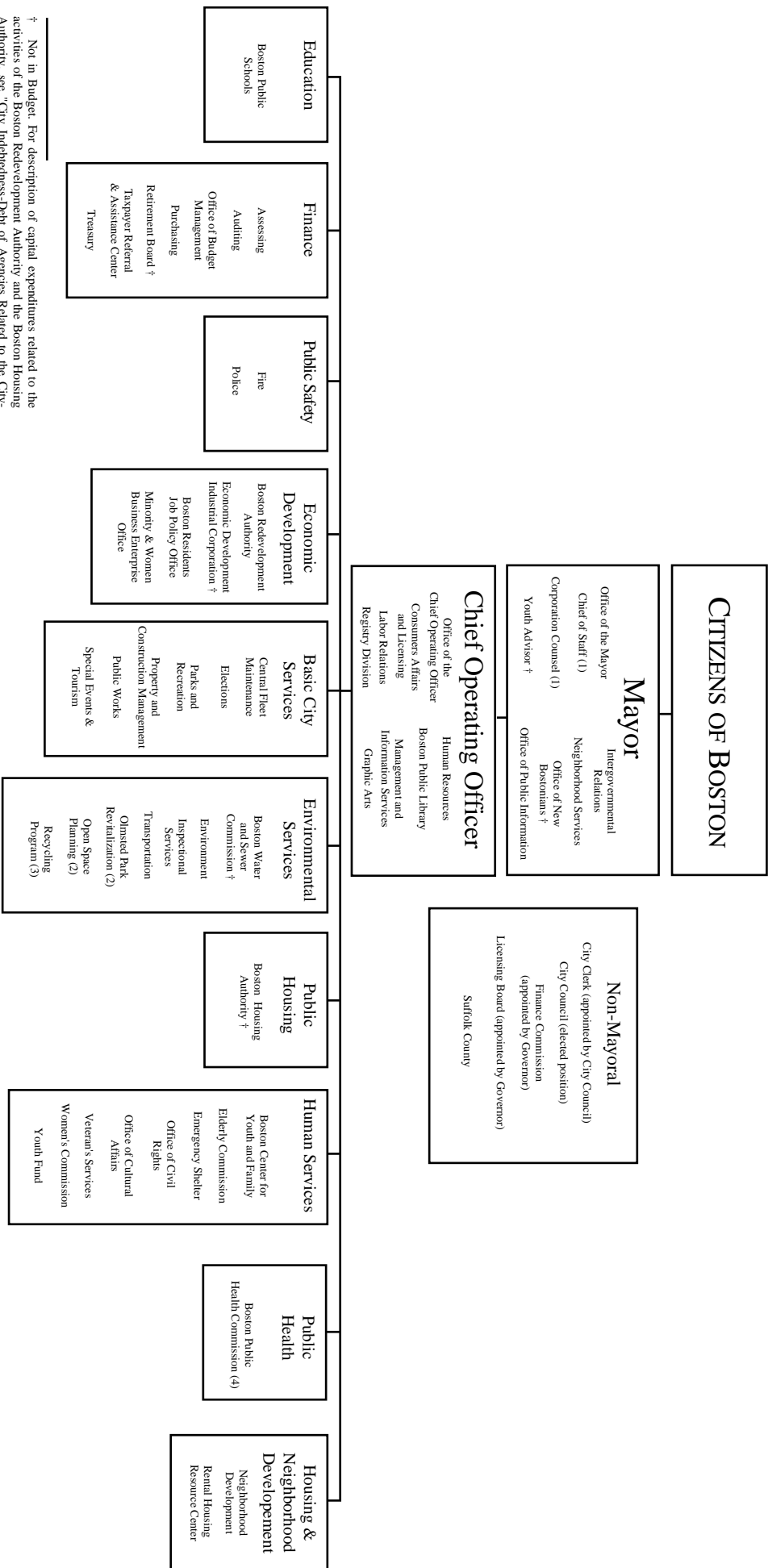
Michael F. Flaherty, Jr. (President).....	At Large
Maura A. Hennigan.....	At Large
Stephen J. Murphy .....	At Large
Felix D. Arroyo .....	At Large
Paul J. Scapicchio.....	District 1
James M. Kelly.....	District 2
Maureen E. Feeney.....	District 3
Charles C. Yancey.....	District 4
Robert J. Consalvo .....	District 5
John M. Tobin .....	District 6
Charles H. Turner.....	District 7
Michael P. Ross.....	District 8
Jerome P. McDermott .....	District 9

### *Organization of City Government*

Mayor Menino established a cabinet form of government to recognize the major functional responsibilities of City government, to facilitate improvements in the conduct of the executive and administrative business of the City, and to eliminate duplication and waste.

The structure of the Mayor's cabinet is set forth in the organizational chart on the following page.

ORGANIZATION OF CITY GOVERNMENT



† Not in Budget. For description of capital expenditures related to the activities of the Boston Redevelopment Authority and the Boston Housing Authority, see "City Indebtedness-Debt of Agencies Related to the City-Boston Redevelopment Authority" and "City Indebtedness-Debt of Agencies Related to the City-Other Agencies and Corporations."

(1) Has cabinet rank.

(2) Programmatically within this cabinet. Financially in Parks and Recreation.

(3) Programmatically within this cabinet. Financially in Public Works.

(4) The Boston Public Health Commission is a body politic and corporate and a political subdivision of the Commonwealth created in June 1996 as successor to the City's former Department of Health and Hospitals. See "City Government-Principal Government Services-Public Health."

With the exception of the Superintendent of Schools, the City officials profiled below serve at the pleasure of the Mayor.

*Chief of Policy and Planning/Acting Chief of Staff*

In mid-September 2002, the Mayor's Chief of Policy and Planning, Peter Welsh, left the Mayor's cabinet to accept a position in the private sector. A search for Mr. Welsh's successor is currently underway.

The Chief of Policy and Planning oversees the development and implementation of all policy initiatives for the City. Additionally, the Chief of Policy and Planning supervises and directs the operations of the Mayor's office. These operations include scheduling, communications, constituent and neighborhood services and intergovernmental relations. The Chief of Policy and Planning also coordinates the actions of the City's cabinet officers and department heads with the Mayor's Office.

*Chief Operating Officer*

Dennis A. DiMarzio was appointed Chief Operating Officer ("COO") by Mayor Menino in April 1996. Prior to his appointment Mr. DiMarzio was Vice President at Arkwright Mutual Insurance in Waltham, Massachusetts where he served in a number of senior management positions in Real Estate Investments, Insurance Operations, Human Resources and Organizational Productivity and Efficiency. Mr. DiMarzio was appointed Chairman of the Board of Commissioners at the Boston Water and Sewer Commission in July, 1994 and continues to serve in this capacity.

The COO is the key individual responsible for the daily administration of the entire City government. The COO reports directly to the Mayor and oversees the performance of City managers at all levels of City government. In addition, the COO oversees the Human Resources Department, the Office of Labor Relations, the Management Information Services Department, the Registry Division, the Office of Consumer Affairs and Licensing, the Boston Public Library, and the Graphic Arts Department. The COO oversees the purchase of health insurance for employees of all City departments and related Commissions. Finally, the COO coordinates the activities of all the other members of the Mayor's cabinet.

*Chief Financial Officer and Collector-Treasurer*

On October 31, 2002 Edward J. Collins, Jr. retired from his position as Chief Financial Officer and Collector-Treasurer. A search for Mr. Collin's successor is currently underway.

The officials with principal responsibility for the City's finances are as follows:

*Temporary Collector-Treasurer*

Vivian M. Leo has been appointed Temporary Collector-Treasurer, and in that capacity is permitted to act with all of the powers and authority of the Collector-Treasurer. Ms. Leo has served for twenty-eight years in the City's Treasury department, and for the past eight years has served as First Assistant Collector-Treasurer. The Collector-Treasurer is responsible for supervision of the City's Treasury Department, the collection of revenues due to the City and to support certain of the activities of Suffolk County, management of City borrowings and payment of all amounts due from the City, including amounts due on account of borrowings by the City in the form of either temporary or permanent debt. The Collector-Treasurer is also the Trustee and Custodian of over 300 City trust funds, and is an *ex officio* member of the Massachusetts Convention Center Authority (the "MCCA").

*Budget Director*

Lisa C. Signori was appointed Acting Budget Director by Mayor Menino in March 1999, and was appointed Budget Director in July 1999. Prior to her appointment, Ms. Signori served as Chief of Staff to the CFO. The Budget Director is responsible for the supervision of the Office of Budget Management ("OBM"), which develops and oversees the operating budget for all departments and operations of the City except the School Department. OBM is also responsible for the City's Capital Plan. OBM prepares and monitors the City's capital budget and coordinates strategic and long-range capital planning for City departments.

#### *City Auditor*

Sally D. Glora was appointed by Mayor Flynn in March 1990 as Acting City Auditor, and in December 1990 as City Auditor. Prior to her appointment as Acting City Auditor, Ms. Glora served as the Deputy City Auditor. The Auditor is responsible for monitoring the internal controls, managing grant funds, providing financial reports, maintaining the books and records for the City and Suffolk County, and for approving all payments made by the City and certain activities of Suffolk County. Ms. Glora is an *ex-officio* member of the State-Boston Retirement Board.

#### *Commissioner of Assessing*

Ronald W. Rakow was appointed by Mayor Flynn in March 1993. Prior to his appointment, Mr. Rakow served as the Acting Commissioner of Assessing from September 1992 to March 1993. Prior to his appointment as the Acting Commissioner of Assessing, Mr. Rakow served as the Director of Research and Standards for the City Assessing Department. The Commissioner of Assessing is responsible for supervision of the City's Assessing Department and the valuation for purposes of the tax levy of real and personal property located in the City.

#### *Chief Economic Development Officer*

Mark Maloney was appointed Chief Economic Development Officer and Director of the Boston Redevelopment Authority (the "BRA") in January 2000. Prior to his appointment, Mr. Maloney served as President of Maloney Properties, Inc., a real estate management firm managing housing, especially affordable housing, throughout the greater Boston area. The Chief Economic Development Officer is responsible for planning, zoning, and economic development for the City. The Economic Development Cabinet is comprised of the BRA, the Economic Development and Industrial Corporation ("EDIC"), including the EDIC's office of Jobs and Community Services, and the Office of Minority and Women Business Enterprises.

#### *Chief of Education*

Thomas W. Payzant was named Superintendent of the Boston Public Schools by the Boston School Committee in July 1995 and his term extends to December 2005. Prior to his appointment by the Boston School Committee, Dr. Payzant served as the Assistant Secretary of Education for Elementary and Secondary Education, United States Department of Education and he had served as Superintendent of the San Diego Public Schools for ten years. The Education Cabinet is responsible for managing the Boston Public Schools. Among the Education Cabinet's responsibilities is the development of a plan for schools and other City and non-City agencies to develop cooperative programs to guarantee that the best possible resources are available to Boston's children. For a description of the student population, staffing, curricula, and governance of the Boston Public Schools, see "The City—Principal Government Services—Schools" below.

#### *Chiefs of Public Safety*

Paul F. Evans, the City's Police Commissioner, and Paul A. Christian, the City's Fire Commissioner, are the Chiefs of the Public Safety Cabinet. Commissioner Evans, a 30-year veteran, was appointed to a second term by Mayor Menino which commenced in May 2002, and will expire in April 2007. Commissioner Christian, a 35-year veteran, was appointed Fire Commissioner by Mayor Menino in November 2001. The Public Safety Cabinet is continuing to improve citywide service-delivery through consolidated and shared resources to provide more effective and efficient public safety services to Boston's communities. Commissioner Christian is responsible for implementing the recommendations of the O'Toole Commission, a study of the Fire Department released in January 2000, as well as emergency management and preparedness program initiatives prompted by the tragic events of September 11, 2001. For a description of Police and Fire Department resources and personnel see "The City—Principal Governmental Services—Public Safety" below.

#### *Chief of Human Services*

Juanita Brooks Wade was appointed Chief of Human Services by Mayor Menino in October 1995. Ms. Wade also serves as Executive Director of Boston Centers for Youth & Families ("BCYF"). This new

City department represents the consolidation of four previously separate departments: Boston Community Centers; the Mayor's 2:00–6:00 After–School Initiative; the Recreation Unit of the Parks and Recreation department; and the Office of Community Partnerships. The Human Services Cabinet is responsible for providing human and other support services for all of Boston's residents through its eight departments: the Office of Cultural Affairs, BCYF, the Youth Fund, the Elderly Commission, the Emergency Shelter Commission, the Women's Commission, the Veteran's Services Department, and the Office of Civil Rights, which is comprised of the Fair Housing Commission, the Commission for People with Disabilities, and the Human Rights Commission.

#### *Chief of Public Health*

John M. Auerbach became Executive Director of the Boston Public Health Commission effective February 1, 1998. In that capacity Mr. Auerbach joined the Mayor's cabinet as the Chief of Public Health. Prior to his appointment Mr. Auerbach served as the Assistant Commissioner of the Commonwealth's Department of Public Health, and as Director of the Commonwealth's HIV/AIDS Bureau. The Commission is responsible for the implementation of public health programs in the City and serves as the board of health of the City. The Commission is divided into six programmatic areas. These are: the Emergency Medical Service, which includes the City's ambulances, EMTs and paramedics responding to the "911" emergency system; Homeless Services; Communicable Disease Control; Substance Abuse Services; Community Health; and Child and Family Health. For additional information concerning the Boston Public Health Commission see "The City—Principal Government Services—Public Health" below.

#### *Chief of Basic City Services*

Michael Galvin was appointed Chief of Basic City Services by Mayor Menino in August 1994. Prior to his appointment, Mr. Galvin was employed by NYNEX and had previously served as the City's first "Executive on Loan." The Basic City Services Cabinet consists of the Public Works Department, the Parks and Recreation Department, the Office of Special Events and Tourism, Central Fleet Maintenance, the Election Department, the Property and Construction Management Department, of which Mr. Galvin is Commissioner and Director of Public Facilities, and which includes Capital Construction, the Animal Control Unit, Building Maintenance and Systems, and Municipal Police. The Cabinet's charge includes investigating opportunities to apply technological innovations to reduce costs or improve the delivery of basic services. For additional information concerning Basic City Services see "The City—Principal Government Services—Other Services" below.

#### *Chief of Environmental Services*

Andrea d'Amato was appointed Chief of Environmental Services by Mayor Menino in November 1997. Prior to her appointment, Ms. d'Amato was the Executive Director of Move Massachusetts 2000, a coalition representing a broad base of environmental, business, community and trade organizations. In addition to serving as Chief of Environmental Services, Ms. d'Amato is also Commissioner of the City's Transportation Department, and oversees the City's relationship with the Central Artery/Third Harbor Tunnel Project. The Environmental Services Cabinet is made up of the Environment Department, the Inspectional Services Department, the Transportation Department, the Boston Water & Sewer Commission, the Recycling Program of the Public Works Department, Open Space Planning and Olmsted System Revitalization of the Parks and Recreation Department, and the Sustainable Boston Program. The Chief of Environmental Services works in conjunction with the Massachusetts Bay Transportation Authority (the "MBTA") and coordinates the City's relationship with the Federal Environmental Protection Agency, the state Executive Office of Environmental Affairs, and the Metropolitan Area Planning Commission.

#### *Chief of Housing*

Charlotte Golar Richie was appointed Chief of Housing in January 1999. Prior to her appointment, Ms. Richie was State Representative of the Fifth Suffolk District, which includes the City's Dorchester and Roxbury neighborhoods. In her capacity as Chief of Housing, Ms. Richie is the Director of the Department of Neighborhood Development and is responsible for overseeing the Rental Housing Resource Center ("RHRC"). The Department of Neighborhood Development is responsible for business development, homeowner/homebuyer programs, housing development, surplus land and building management and

disposition, and certain of the City's capital construction. The RHRC provides a variety of services to tenants and owners of the City's residential housing stock.

#### *Chief of Public Housing*

Sandra B. Henriquez was appointed Chief of Public Housing in December 1996, when Mayor Menino elevated the position of Administrator of the Boston Housing Authority (the "BHA") to the level of a cabinet post. Prior to her appointment as Administrator of the BHA in April 1996, Ms. Henriquez was a principal of Maloney Properties, Inc., a private management firm specializing in the delivery of property management services to resident-controlled and non-profit sponsored housing. The Boston Housing Authority is a public body established under the laws of the Commonwealth of Massachusetts. It is responsible for the financing, construction, operation, and management of public housing for low-income families and individuals.

#### *Corporation Counsel*

Merita A. Hopkins was appointed Corporation Counsel in June 1995. Prior to her appointment, Ms. Hopkins engaged in a diversified private legal practice in Boston. The Corporation Counsel has supervisory authority over all City attorneys and legal affairs. The Law Department provides a comprehensive array of legal services including formal and informal opinions and advice to the Mayor, the City Council, the Boston School Committee and other officials in matters relating to their official duties, and also represents all of the foregoing entities and individuals in litigation of all types. In addition, the Law Department reviews all City and County contracts, pursues claims on behalf of the City through affirmative litigation, and pursues foreclosure proceedings on tax delinquent real property.

#### **Principal Government Services**

The following tables show, respectively, the distribution of the City's fiscal 2003 appropriations by primary government functions and departments.

#### **Purposes of City Appropriations—Fiscal 2003<sup>(1)</sup> (Budgetary Accounting Basis)<sup>(2)</sup> (\$ in thousands)**

	<u><b>Amount</b></u>	<u><b>Percent of Total Appropriations</b></u>
General Government.....	\$ 68,012	3.7%
Public Safety.....	404,730	22.2
Public Works .....	82,542	4.5
Property and Development .....	35,062	1.9
Parks and Recreation .....	14,785	0.8
Library .....	28,008	1.5
Human Services.....	24,972	1.4
Schools .....	650,536	35.7
Boston Public Health Commission .....	63,897	3.5
Judgments and Claims .....	3,100	0.2
County .....	4,537	0.2
Employee Benefits.....	111,092	6.1
Current Period Retirement Contributions .....	139,325	7.6
Debt Requirements .....	126,135	6.9
State and District Assessments .....	68,498	3.8
Total.....	<u><b>\$ 1,825,231</b></u>	<u><b>100.0%</b></u>

(1) Represents the fiscal 2003 Tax Order budget approved as of June 26, 2002 and amended as of December 20, 2002.

(2) See "Financial Operations – Operating Budgets" for a definition of budgetary accounting basis.

Source: City of Boston Auditing Department and Office of Budget Management.



**Full-Time Equivalent  
City Employees By Department <sup>(1)</sup>**

	<u>2000</u>	<u>2001</u>	<u>2002</u>
<i>City Funded:</i>			
Public Safety <sup>(2)</sup> .....	4, 735	4,690	4,662
Public Works.....	455	437	451
Other City Departments .....	3, 191	3,204	3,221
Boston Public Health Commission .....	732	756	768
Subtotal.....	9,113	9,087	9,102
Schools .....	<u>8,235</u>	<u>8,438</u>	<u>8,510</u>
Total City Funded .....	17,348	17,525	17,612
<i>Grant Funded:</i>			
Schools .....	827	820	925
All Others <sup>(3)</sup> .....	<u>1, 505</u>	<u>1,529</u>	<u>1,640</u>
Total .....	<u>19,680</u>	<u>19,874</u>	<u>20,177</u>

(1) All data are as of January 1 in the year stated. The methodology used in compiling these data was established jointly by the City and the Boston Municipal Research Bureau.

(2) Public Safety includes both the Police Department and the Fire Department.

(3) Does not include grants managed by the Boston Public Health Commission.

Source: City of Boston Office of Budget Management.

A description of certain City principal governmental services follows:

*Schools*

The City's School Department provides both basic education and college preparatory curricula as well as specialized vocational educational programs. The school system enrolled 62,102 students for the 2002-2003 school year, a decrease of approximately 637 students from the preceding school year.

Pursuant to Chapter 108 of the Acts of 1992, the City's public schools are under the control of a School Committee, which consists of seven members appointed by the Mayor. Members of the School Committee have staggered four-year terms. In addition to appointing the Superintendent of Schools, the Boston School Committee approves the School Department budget for submission to the Mayor, and by and through the Superintendent, determines educational policy, makes all contracts for the purchase of materials for the operations of the schools, and maintains and operates school properties. The Superintendent of Schools has exclusive authority to make appointments and promotions for all teachers and other School Department personnel except for the positions of Community Superintendent, Chairman, Secretary, or Treasurer of the School Committee, School Committee Administrative Assistants, and Special Assistant Corporation Counsels. The School Committee appoints these excepted positions.

*Public Safety*

The City's Police and Fire Departments provide and promote public safety and protection services, firefighting and fire prevention services.

The Police Department maintains eleven neighborhood police stations and one headquarters building. It also maintains ten support programs, consisting of the Police Academy, Horse Stables, Firearms Training Range, Harbor Patrol Unit, Fleet Management Unit, Telecommunications Unit, Evidence Management Facility, Property and Supply Warehouse, Special Operations Division, Stress Support Unit and Sexual Assault Unit. Since 1985, seven neighborhood-based police stations have been constructed or restored and reopened. The City's newest police station in the South End, was completed in Spring 2001.

The overall crime figures for 2002 show a 4.0% decrease compared to the same period in 2001.

The Fire Department maintains 40 facilities consisting of 34 neighborhood fire stations, one marine unit, a fire investigation unit/maintenance division, a high-pressure pumping station, a training academy, a fire alarm operation division and headquarters. In calendar year 2002 the Fire Department responded to 75,542 incidents, a reduction of 4.2% compared to calendar 2001. Of the calendar year 2002 total, 36,421

responses were calls of an emergency medical nature. In calendar year 2001, the Fire Department responded to 78,826 incidents, of which 36,470 were of an emergency medical nature.

#### *Public Health*

Effective July 1, 1996 the City's Department of Health and Hospitals, and the separately chartered Trustees of Health and Hospitals of the City of Boston, were abolished and all assets, liabilities, rights and powers of both were transferred to and assumed by the Boston Public Health Commission (the "Commission"). Also effective July 1, 1996, the operations of the City's acute-care hospital, Boston City Hospital ("BCH"), were consolidated with the operations of Boston University Medical Center Hospital, a private teaching hospital affiliated with Boston University School of Medicine which was located adjacent to the BCH campus. Boston Medical Center Corporation ("BMCC"), a private, Massachusetts non-profit corporation, now operates the consolidated hospitals under the name "Boston Medical Center." See "City Indebtedness—Debt of Agencies Related to the City—Boston Public Health Commission."

The Commission is a body politic and corporate and a political subdivision of the Commonwealth. It is governed by a seven-member board, six of whom are appointed by the Mayor, subject to confirmation by the City Council, and one of whom, as the chief executive officer of BMCC, serves ex-officio. The Commission functions as the City's board of health and operates a wide range of public health programs throughout the City funded from public and private grants and City appropriations. The Commission is a discretely presented component unit for GAAP reporting purposes in the City's annual audited financial statements.

#### *Other Services*

The Public Works Department constructs and maintains highways, sidewalks, street lighting and bridges, and oversees snow removal, street cleaning, refuse removal and recycling. This year the City advertised, awarded, and executed five contracts for the provision of sanitation, solid waste collection and disposal services, including recycling, for a three-year term beginning July 1, 2002 and ending June 30, 2005, with a two-year option to renew. The cost of these services equaled \$29.3 million in fiscal 2002. The estimated cost of these contracts in fiscal 2003 equals approximately \$41.9 million. The Department continues to work with the U.S. Coast Guard on the design of a new Chelsea Street Bridge in East Boston. As of July 1, 2002 NSTAR transferred ownership of approximately 23,000 streetlights to the Public Works Department, resulting in savings of approximately \$2.0 million. The Boston Water and Sewer Commission ("BWSC"), an independent agency, is responsible for the operation and maintenance of the City's water, and sewer, and storm water drainage systems, the construction of improvements to those systems, and the collection of user charges for its services. See "City Indebtedness—Debt of Agencies Related to the City—Boston Water and Sewer Commission" below.

The Boston Public Library Department operates a central library, 26 neighborhood branch libraries, a downtown business library, and two service buildings. The Parks and Recreation Department manages approximately 2,200 acres of active, passive and historic parkland. The 2,200 acres of land include 272 parks, playgrounds, squares, malls, plazas, and other miscellaneous sites; sixteen historic and three active cemeteries; one greenhouse facility; and approximately 50,000 street trees.

#### *Suffolk County*

The Mayor and City Council serve as the County Commissioners of Suffolk County. Suffolk County includes the cities of Boston, Chelsea and Revere and the town of Winthrop. The Commonwealth has assumed all financial responsibility for the Suffolk County courts, Registry of Deeds, and for the capital costs incurred in the rebuilding of the two county jails. A subsidy of 5.0% of the state-approved budget for the Suffolk County Jail is included in the City's fiscal 2003 budget. As of January 1, 2003, the two jails had a combined total of approximately 2,300 inmates.

#### **Employee Relations**

Under Massachusetts General Laws Chapter 150E, most municipal employees in the Commonwealth enjoy the right to join labor unions and bargain collectively over wages and other terms and conditions of employment. The Office of Labor Relations represents the Mayor and the City in all collective bargaining matters with all unions of City employees except School Department employee unions. The School

Department's labor relations personnel similarly represent the School Committee and consult with the Office of Labor Relations regarding contract negotiations and other general labor matters. Additionally, the Office of Labor Relations has actively assisted the Boston Public Health Commission in collective bargaining negotiations with its eleven bargaining units and regularly interfaces with the Boston Public Health Commission on labor and employment matters. The Office of Labor Relations provides no such assistance to the Suffolk County Sheriff's Department, which itself manages relations with its employees.

Nearly 90% of the City's non-school department employees are organized into approximately 25 bargaining units represented by various unions. Most of these unions are affiliated with the AFL-CIO. Three large unions, the American Federation of State, County, and Municipal Employees ("AFSCME") Council 93 (approximately 1,700 laborer employees), the Service Employees International Union ("SEIU") Local 285 (approximately 1,300 clerical employees), and the Salaried Employees of North America ("SENA") Local 9158 (approximately 700 middle manager employees) represent the majority of City's non-public safety employees.

Police officers are represented by four distinct unions, the Boston Police Patrolmen's Association ("BPPA"), the Boston Police Superior Officers Federation ("Federation"), the Boston Police Detectives Benevolent Society ("Detectives") and the Boston Police Detectives Benevolent Society, Superior Officers Unit ("Detective Superiors"). Firefighters and Fire Chiefs are divided into two bargaining units represented by a single union: the International Association of Firefighters ("IAFF") Local 718.

The majority of Collective Bargaining Agreements between the City and the unions expired on June 30, 2002. For the 2002-2005 collective bargaining cycle the City is currently in negotiations with twenty-one of the twenty-five unions including, AFSCME, SEIU Local 285, AFSCME 1526, Professional Staff Association, National Association of Governmental Employees, Traffic Supervisors, International Brotherhood of Electrical Workers Local 103, Typographical Union Local 13, Graphic Arts Union Local 67, Graphic Communications International Union Local 600, Firemen and Oilers Local 3, and the Office of Professional Employees International Union Local 6. The contracts with the SENA Unions and Firefighter's expire on June 30, 2003. The contract with the Teachers' unions expires on August 31, 2003.

In the past negotiated contracts with these unions have substantially mirrored one another. In the 1999-2002 negotiations, the City achieved significant limits to an employee's contractual right to have an arbitrator determine a particular compensation grade. The City agreed to wage increases of 3% in July 1999; 3% in July 2000 and 3% in October 2001. The City also agreed to provide a comprehensive dental and vision insurance plan with several unions.

The City has negotiated drug testing provisions into many of the collective bargaining agreements, including Typographical Union Local 13, Graphic Arts Union Local 67, and the Graphic Communications International Union Local 600. Further, the National Association of Government Employees (Boston Municipal Police Patrolmen), the Boston Municipal Police Superior Officers Association, and the Boston Police School Traffic Supervisors have all agreed to accept Boston Police Department Rule 111 (drug testing). Additionally, the Municipal Police unions have agreed that officers injured while on-duty may return to work on light duty assignments.

Patrol Officers represented by the BPPA are currently working under the terms of a Memorandum of Agreement covering the July 1, 1996 through June 30, 2002 time period. This groundbreaking six-year agreement consisted of a two-year collective bargaining agreement for fiscal years 1997 and 1998 with a 4% base wage increase each year, a three-year collective bargaining agreement with a 3% base wage increase in fiscal years 1999 and 2000 and 0% in fiscal year 2001, and a one-year agreement for fiscal year 2002 with a 0% base wage increase. The structure of the base wage increases takes into account the City's acceptance of the provisions of M.G.L. c. 41, § 108L (the "Quinn Bill") which provides for an educational incentive awards program. Payments made under the program are calculated as a percentage of wages for officers with certain law enforcement degrees certified by the Commonwealth Department of Education. The state statute provides for reimbursement to the City of up to 50% of the cost of the program to be provided by the Commonwealth in the year following the award, subject to appropriation. The agreement with the BPPA caps the City's liability at 50% of the calculated payment in the event the Commonwealth does not provide the appropriation to cover its 50% obligation. The City's acceptance of this statute became effective July 5, 2000 for members of the BPPA. The BPPA agreement also includes major language initiatives including mandatory annual drug testing, performance evaluations, clarification in certain overtime payments, the ability to alter the paid details system, the ability to civilianize the Operations

Division, and increased flexibility in assigning police officers. The City received arbitration awards from the Joint Labor Management Committee settling the Detectives, the Detective Superiors and the Superior Officers Federation contracts through June 30, 2002. These awards were substantially similar to the BPPA Memorandum of Agreement. Recently, through the Joint Labor Management Committee (JLMC) the patrol officers were awarded a one-time additional three thousand dollar (\$3,000) adjustment pursuant to a wage-reopener provision in the collective bargaining agreement.

The City negotiated with the International Association of Firefighters, Local 718 for terms and conditions on two Agreements. The first is a one-year agreement that began on July 1, 1999 and ended June 30, 2000. It offered a 4.5% increase in base wages. The second agreement began July 1, 2000 and extends through June 30, 2003. The agreement contains base wage increases of 4% in fiscal year 2001, 4.5% in fiscal year 2002, and 4% in fiscal year 2003. Further, the contract increased longevity payments and created a new sick leave program. The agreement also contains significant management changes in an effort to improve the efficiency of the Fire Department. Some of those changes include an injury leave/limited duty provision and the creation of two positions, Chief of Field Services and Chief of Support Services, which are exempt from union status.

Boston teachers, teacher aides, school nurses, and substitutes are in a collective bargaining unit represented by the Boston Teachers Union ("BTU"), an affiliate of the AFL-CIO. The City reached a successor contract covering the period of September 1, 2000 through August 31, 2003 with the approximately 5,400 teachers and school nurses as well as the 1,400 substitutes and teacher aides. The contract increased base wages by 4% for each fiscal year of the three-year deal. These increases were agreed to in exchange for significant language initiatives furthering the School Department's commitment to school-based management and teacher development.

### **Retirement Systems**

The City's employees are not participants in the federal social security system. All retirement allowances are paid from a fund supported by employee, City and state contributions. Employee contributions in the form of a mandatory deduction from regular compensation constitute an annuity fund from which the annuity portion of the retirement allowance is paid.

The City participates in a contributory defined benefit retirement system that is administered by the State-Boston Retirement System ("SBRs"). The SBRs provides pension benefits to retired City employees under a state contributory retirement statute, and is administered by a Retirement Board comprised of five members: the City Auditor, who serves *ex-officio*; two individuals elected by members of the system; an individual chosen by the Mayor; and an individual chosen by the other four members or appointed by the Mayor if the other four members do not agree on a selection within thirty days of a vacancy. The City is committed to funding based upon a schedule approved by the SBRs and the state actuary, which includes paying the current year's estimated present value of benefits earned during the year ("normal cost") and an annual contribution toward reducing the unfunded liability to zero by the year 2023. This schedule is calculated in accordance with the entry age actuarial cost method. The schedule is subject to update and approval at least every three years by the state Public Employee Retirement Administration Commission ("PERAC"), a state agency established to oversee all 106 local Massachusetts public retirement systems. The SBRs most recently received approval for a funding schedule for fiscal 2004, 2005, and 2006. The latest approved schedule targets full funding of the system five years prior to the legally required 2028 but three years later than the prior schedule. The switch from 2020 to 2023 as the full funding target was made at the request of the City in order to manage the impact of higher than anticipated pension liability, and as it continues to address anticipated future state aid cuts. The annual appropriation, based on the funding schedule, is a legal obligation of the City that must be included as part of the tax rate certification by the Commonwealth.

Commencing with its fiscal 1999 financial statements, the City adopted the requirements of Statements Number 25 and Number 27 of the Government Accounting Standards Board (GASB) for disclosure in the City's financial statements. Beginning January 1, 2000, accumulated assets have been reported using the "asset smoothing" valuation method. Asset smoothing utilizes a conservative long-term rate of return to determine the actuarial value of assets in determining a funding schedule, thereby avoiding dramatic upswings and downswings inherent in the equity markets. On January 1, 1999, and on previous

actuarial reporting dates, assets were reported at market value. During those years, the actuarial value and the market value were considered to be the same.

The state legislature approved and the Governor signed on May 15, 2002, a local option early retirement incentive (ERI) for municipal employees, Chapter 116 of the Acts of 2002. The Mayor and the City Council subsequently approved the local option in June. Public safety employees (Group 4) and teachers were not targeted in the 2002 ERI. The incentive (a defined increase in the employee's pension award) was taken by 476 eligible City employees who retired on October 31, 2002. The budgetary impact on the City is discussed in "Fiscal 2003 Budget—Pensions."

The cost of living adjustment is set each year at the CPI or an amount up to, but not greater than, 3% on the first \$12,000 of a retiree's annual payment. Cost of living adjustments are considered by the Board on an annual basis. As part of the annual review process, the Board considers the fiscal conditions of the City and whether the granting of a COLA would substantially impair the City's funding schedule. COLA's were approved for fiscal 1999, 2000, 2001, 2002, and 2003. The Commonwealth, meanwhile, has incorporated in its pension funding schedule sufficient funds to fulfill its obligation for local cost of living adjustments it had awarded prior to fiscal 1998. The funding schedule incorporated a 3% cost of living adjustment into its annual appropriation calculation.

**Schedule of Funding Progress**  
(\$ in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
January 1, 2002	\$3,376,000	\$4,861,000	\$1,485,000	69.5%	\$1,057,000	140.5%
January 1, 2001	3,212,000	4,257,000	1,045,000	75.5	990,000	105.6
January 1, 2000	2,980,000	4,101,000	1,121,000	72.7	943,000	118.9

Source: City of Boston Retirement Board

The long-term investment performance of the SBRS has exceeded the long-term investment assumption of 8% upon which its funding schedule is partly based, recording a five-year (ending in 2001) average annualized return of 8.51% and an average annualized return from January 1, 1985 through December 31, 2001 of 10.78%. In 2001 the median rate of return for all Massachusetts' public pension funds was -3.90%, and for the SBRS was -5.72%.

In addition to SBRS, the Boston Retirement System, the predecessor system, is funded by the City. This predecessor system has as its members only those active and retired employees whose employment commenced prior to 1946 and who have not elected coverage under the SBRS program. This system is funded on a "pay-as-you-go" basis. In addition to SBRS and its predecessor system, the City also provides noncontributory retirement benefits to certain employees whose employment predates SBRS and its predecessor system or who are veterans who meet certain state law requirements. The City is currently providing such benefits to approximately 352 pensioners.

Amounts expended or estimated to be expended by the City for pension and annuities contributions to SBRS and its predecessor system in the most recent fiscal periods (net of state reimbursements for teacher retirement costs) are as set forth below.

**City of Boston Pensions and Annuities Costs**  
**(Budgetary Accounting Basis)**  
**(\$ in millions)**

<u>Fiscal Year Ending June 30</u>	<u>SBRs Contributory System</u>	<u>Predecessor/ Noncontributory System</u>	<u>Teachers Pension Reimbursement</u>	<u>Net Pension Cost</u>
2003 Budgeted.....	\$126.8	\$4.9	\$(47.6)	\$84.1
2002 .....	129.7	6.0	(45.3)	90.4
2001 .....	127.5	6.3	(41.4)	92.4
2000 .....	128.6	5.9	(38.8)	95.7

Source: City of Boston Office of Budget Management

### **Budget Process**

The City's fiscal year begins July 1 and ends on June 30 of the following calendar year. Pursuant to state law, the Mayor must submit an operating budget to the City Council by the second Wednesday in April for its review and approval. Proposed appropriations for all departments and operations of the City (except for the public schools and public health services) and certain operations of Suffolk County are prepared under the direction of the Mayor in the Office of Budget Management ("OBM"). The Superintendent of Schools must submit a budget to the School Committee by the first Wednesday in February. The School Committee must approve a budget by the fourth Wednesday in March and forward this budget to the Mayor who may approve or reduce the total recommended budget. The Mayor then submits the school budget to the City Council for appropriation by the second Wednesday in May. In practice, the School Department appropriation request has been presented to the City Council in coordination with the Mayor's operating budget request in April. The Boston Public Health Commission must submit a revenue and expenditure budget for public health services to the Mayor by the second Wednesday in March. If the proposed budget provides for expenditures in excess of the Commission's projected revenues from non-City sources, the Mayor may either approve or reject the budget. If the Mayor accepts the budget, the amount required to fund the revenue deficiency (the "net cost of public health services") is included in the annual budget for the City submitted to the City Council in April of each year. The Commission must adopt its public health services budget by the second Wednesday in June.

The City Council may reduce or reject any item in the Mayor's budget but may not, except upon the recommendation of the Mayor, increase or add an item. After approval of the budget and until the property tax rate is officially determined in mid-December, the Mayor may submit to the City Council such supplementary appropriation requests as are deemed necessary, including supplemental amounts for the School Department and the Boston Public Health Commission. The Mayor may also submit to the City Council supplementary appropriation requests subsequent to the setting of the property tax rate. Under certain circumstances, the Mayor may, by executive order, require expenditures to be limited to an amount less than the appropriated level.

In the event that the City enters a fiscal year without an approved operating budget, the City continues departmental operations on a "one-twelfth" budget, as provided in the City Charter. Under the one-twelfth budget process, (a) payrolls for regular employees cannot exceed the average monthly expenditure of the last three months of the preceding fiscal year, (b) total liabilities incurred in any month cannot exceed amounts spent for similar purposes during any one month of the preceding fiscal year, and (c) monthly expenditures for new departments cannot exceed one-twelfth of their current fiscal year's estimated costs.

The City, Boston Public Health Commission and School Department operating budgets for fiscal 2003 were approved by the City Council on June 26, 2002. See "Financial Operations—Fiscal 2003 Budget". The Mayor also initiates loan orders for City Council consideration, based on an annual update of the Five-Year Capital Plan. There is no statutory time frame for requesting or approving such orders. New authorizations related to the fiscal 2003 Five-Year Capital Plan were submitted to the City Council on April

10, 2002, and were approved by the City Council in July 2002. In addition to these authorizations, the Mayor submitted an authorization to the City Council in August 2002 for the acquisition of 1010 Massachusetts Avenue. The City Council approved the authorization in September 2002.

By law, the City must establish its property tax rate each year so that the resulting property tax levy complies with the requirements of Proposition 2½. (For a discussion of Proposition 2½, see “City Revenues—Property Taxes—Proposition 2½”.) The amount raised in the tax levy equals the sum of (a) the aggregate of all amounts appropriated, granted or lawfully expended since the last annual tax levy and not provided for, plus (b) all debt and interest charges on general obligation debt of the City maturing during the fiscal year and not otherwise provided for, plus (c) all amounts necessary to satisfy final judgments, plus (d) provision for certain prior years’ deficits, less (e) the aggregate of all non-property tax revenues projected to be received in the City’s General Fund in amounts certified or approved by the Commonwealth for tax rate purposes. In general, the City is required to raise in the tax levy a deficit incurred on a statutory accounting basis in the prior year’s operating budget, or a deficit incurred in the property tax abatement reserves.

### **Accounting and Reporting Practices**

The City engages independent certified public accountants to examine and report on its financial statements in accordance with auditing standards generally accepted in the United States of America. An external Audit Committee, appointed by the Mayor, monitors the progress of the annual audit, reviews the recommendations of the firm and reports the Committee’s activities and recommendations to the Mayor and the City Council.

The City’s audited financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, (“GAAP”). The accounts of the City are organized on the basis of funds. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, net assets/fund balance, revenues and expenditures/expenses. For a discussion of the significant accounting policies employed in preparing the City’s fiscal 2002 financial statements, see Note 2 of the audited financial statements, and “Financial Operations—Financial Statements” below. The City’s fiscal 2002 financial statements comply with GASB Statement No. 34, see Note 3 of the audited financial statement regarding the impact of the implementation of this Statement. The City’s 2002 audited financial statements are presented in Appendix A.

GAAP accounting differs from the “statutory” accounting or “budgetary” accounting basis prescribed by the Bureau of Accounts of the Commonwealth, for the annual budget and property tax certification process. The major differences are explained in Note 4 of the audited financial statements.

### **Financial Administration**

Pursuant to state law mandates and policy initiatives, the City has established a system of internal management controls. These controls are designed to maximize revenue collections, monitor operating and capital spending, evaluate infrastructure needs, and enhance the City’s internal procedures. Major components of the City’s system of financial management controls include:

#### *Property Tax Collections*

The City has achieved a property tax collection rate of 98.6% of the fiscal 2002 Gross Levy as of June 30, 2002, net of refunds. The City’s aggressive enforcement and information-sharing programs have contributed to an increase in its property tax collection rate. For data on property tax collections prior to fiscal 2001, see “City Revenues—Property Taxes—Real Estate Tax Levies and Collections.”

#### *Capital Budgeting*

The Capital Budgeting Program (“CBP”), a program of OBM, is responsible for managing the capital budget of the City. CBP’s mission is to evaluate the condition of the City’s capital assets, forecast the timing and financial requirements of new construction and rehabilitation, and recommend allocation of current and future resources to meet the City’s infrastructure and capital requirements. Resource availability and capital needs are assessed frequently and appropriate planning responses are taken.

CBP evaluates and refines the relationship between the City’s capital needs and resources as the City moves through each fiscal year. This process is documented by an annually updated five-year capital plan.

In April 2002, Mayor Menino released the seventeenth capital plan, incorporated with the operating budget. In addition to its planning functions, CBP also plays an ongoing project oversight role during the implementation phase of its capital projects. CBP reviews and approves all capital contracts and monitors project costs and schedules to ensure the adequacy of available funding sources.

#### *Program-Based Budgeting*

The City of Boston maintains a program-based budgeting system to track expenditures and service levels by major functions or “programs.” This budgeting system complies with the standards of the Government Finance Officers Association, which has consistently recognized the City’s efforts with its Distinguished Budget Presentation Award.

#### *Debt Management*

The Treasury Department manages all City borrowings. The Treasury Department focuses on the timing of borrowings to take advantage of favorable market conditions and manages the City’s cash flows to help obviate the need for short-term borrowings for operating purposes. The Treasury Department has established a series of debt management guidelines that direct the City’s approach toward its debt management activities including rapid debt repayment, the use of a debt capacity model for establishing debt affordability, limitations on the level of variable rate debt the City will employ, maintenance of the relationship between debt and repayment sources, target savings for refundings, and reporting and liaison with the financial community and the rating agencies.

The City uses a comprehensive, interactive debt capacity model that assists debt management administrators in evaluating the potential impact of debt issues on cash flow, credit and statutory debt capacity. The City’s debt burden (net direct general obligation debt to assessed property value of \$57.53 billion) is currently 1.21%, and the City’s net direct general obligation debt per capita was \$1,113.14 as of February 1, 2003.

#### *Financial Management*

Financial management is supported through the use of the Boston Administrative Information Systems (BAIS). BAIS is an integrated financial and human resources management system that is designed to track and control daily activities and report the financial position of the City. BAIS performs the specialized functions of encumbrance control, budget control, position management, payroll allotment reporting, fund accounting, and capital project and grant management. Real time edits prohibit excessive commitments and overspending, while on-line access to information, including monthly revenue and expenditure reports, allows department managers to evaluate directly the financial status of individual programs and the entire department. The utilization of these systems support the rigorous monitoring and reporting requirements enforced by the City.

The City of Boston has consistently received unqualified opinions on the audit of its Audited Financial Statements and has been presented with a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for its Comprehensive Annual Financial Report.

#### *Program Evaluation*

The City’s Improving Management Program focuses on evaluating City programs and services. This program encourages organizational changes or operational improvements that increase the effectiveness or productivity of City departments. The program provides reliable, objective and independent information to City managers about department performance and operations, assists in reviewing the effectiveness of service delivery, and identifies the extent to which programs overlap or duplicate one another.

#### *Risk Management*

The City of Boston’s Risk Management Program focuses on a planned strategy of self-insurance supported by strong prevention and cost reduction efforts, financial reserves and catastrophic insurance.

The citywide program first focuses on limiting unnecessary asset losses due, for example, to third party legal liability claims, property losses, workplace injuries, employee healthcare and unemployment compensation. The City’s Corporation Counsel defends the City in any lawsuits that arise from the normal



course of operations. Assets and losses are tracked and quantified and areas are targeted for improvement efforts.

The City budgets and funds for the costs described above through the general fund, except for self-insured healthcare costs, which are managed by Blue Cross Blue Shield, and financed through an employee/employer trust fund established in compliance with Section 3A of Chapter 32B of the General Laws.

For unexpected large losses, the City has been continually building a catastrophic risk reserve, the available balance of which equaled \$5.9 million at the end of fiscal 2002, and has a projected balance of \$6.6 million at the end of fiscal 2003.

To further protect the City's assets in finances from adverse loss, commercial insurance is purchased strategically for certain exposures. A catastrophic property insurance policy provides \$30 million all risk protection after a \$20 million retention; boiler and machinery losses are insured up to \$2.5 million, and 60% of the City's healthcare cost are insured through HMOs.

#### *Investment Policy*

The City has enacted and annually reviews and updates its investment policy statement that dictates the types of investments made by the City Treasury. The policy also focuses on the appropriate balance of liquidity and the rate of return on investments. Bond proceeds, in conformance with the City's policy, are invested in highly liquid, fully collateralized investments.

## FINANCIAL OPERATIONS

### Financial Statements

The following information is derived from financial statements prepared by the City and audited by KPMG LLP, an independent certified public accounting firm, in accordance with the GAAP basis of accounting.

### Summary of Operating Results

The following table is a summary of the City's General Fund operating results as derived from the City's audited financial statements for fiscal years 1998 through 2002.

#### Summary of Statements of Revenues, Expenditures, Other Financing Sources and Changes in Fund Equity Fiscal Years 1998-2002 (GAAP Basis) (\$ in millions)\*

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Total revenues .....	\$1,429.7	\$1,526.8	\$1,621.5	\$1,692.7	\$1,801.3
Total expenditures .....	<u>1,345.8</u>	<u>1,459.6</u>	<u>1,536.3</u>	<u>1,603.9</u>	<u>1,735.1</u>
Excess of revenues over expenditures .....	83.9	67.2	85.2	88.8	66.2
Total other financing uses.....	<u>(46.9)</u>	<u>(33.4)</u>	<u>(41.2)</u>	<u>(43.0)</u>	<u>1.8</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses .....	<u>37.0</u>	<u>33.8</u>	<u>44.0</u>	<u>45.8</u>	<u>67.9</u>
Fund balance, beginning of year as previously reported.....	<u>105.8</u>	<u>142.8</u>	<u>176.7</u>	<u>220.7</u>	<u>266.5</u>
Cumulative change in accounting principles <sup>(2)</sup>	—	—	—	—	67.7
Fund Balance, beginning of year as restated	—	—	—	—	<u>334.2</u>
Fund balance, end of year <sup>(1)</sup> .....	<u>\$ 142.8</u>	<u>\$ 176.7</u>	<u>\$ 220.7</u>	<u>\$ 266.5</u>	<u>\$ 402.1</u>

\* Columns may not add due to rounding.

(1) The undesignated fund balances for the General Fund for fiscal 1998, 1999, 2000, 2001, and 2002 were \$101.8 million \$126.5 million, \$163.3 million, \$182.0 million and \$345.8 respectively.

(2) For additional information regarding the cumulative change in accounting principles, see Note 3 of the Annual Financial Statements – APPENDIX A.

Source: City of Boston Auditing Department.

### Comparative Operating Results

The following is a summary analysis of the City's financial operations on a GAAP basis over the period fiscal 2000 through fiscal 2002. The figures appearing in this section for the period are derived from the annual financial statements. The analyses of revenues and expenditures in the text that follows are stated using budgetary data. For differences between the GAAP and Budgetary bases of accounting, see Appendix A, Notes to Financial Statements #4, "Budgetary Data."

The City's major local recurring revenue sources during this period were real and personal property taxes, payments in lieu of taxes ("PILOTs"), local excises and departmental revenues. Significant amounts of revenue were also received from state aid and other intergovernmental sources. The principal expenditures were for public safety, debt requirements, retirement costs, and the School Department. Reference is made to Appendices A and B for a detailed presentation of the City's financial operations.

#### *Fiscal 2000*

Property tax revenues increased by \$76.7 million, due to an increase in assessed value and new growth. State Distributions from the Commonwealth increased by 4.1% (\$18.9 million) to \$475.8 million, due most notably from an increase in Chapter 70 school related revenues and Lottery Aid.

Expenditures for fiscal 2000 increased \$76.7 million (5.3%) compared to 1999. Spending for General Government increased \$10.8 million, due primarily to a \$8.5 million increase in collective bargaining

reserves in the current year. Property and development increased by \$3.4 million (10.8%) primarily due to the expansion of the Capital Construction Division, major HVAC repairs and an increase in volume of assistance grants. Spending for the School Department increased by \$41.0 million to \$578.6 million as a result of ongoing improvements to technology, several new educational initiatives along with an increase in the collective bargaining reserve. Retirement Costs increased \$12.7 million due to an increase in the SBRS contribution.

The General Fund's equity balance as of June 30, 2000 was \$220.7 million, as compared to \$176.7 million in 1999. The increase is primarily due to an increase in property tax revenues of over \$76.0 million.

#### *Fiscal 2001*

Revenue growth continued in 2001. The Payments in Lieu of Taxes increase is mainly attributable to the income portion of taxpayer's liabilities on Chapter 121A section 10 (Urban Redevelopment Excise) agreements and Section 6A agreements along with receipt of back payment from tax-exempt organizations. Investment Income increased during the course of fiscal 2001, due to a solid investment policy and combined with increased revenue collections. The Licenses and Permits increase was a result of revenue generated by building permits for commercial (i.e. office towers, hotels, etc.) and residential construction projects undertaken throughout the City. Department and other revenue also increased. This is attributable to reimbursements from retroactive billing of prior year's costs for Municipal Medicaid and increased revenue from parking facilities leased to private operators. Property tax revenues have increased 0.6% from 2000, while State aid has increased 3.7%.

Spending for Public Safety increased \$14.5 million (4.0%) due to collective bargaining wage increases in fiscal 2001. Public Works increased \$7.6 million (10.8%) due to collective bargaining wage increases, increased costs of trash removal and increased snow removal costs, due to heavier snowfall. Property & Development increased \$6.1 million (17.2%) due to Boston's continuing effort to add additional affordable housing. Schools increased \$32.8 million (5.7%) due to collective bargaining wage increases and the development of a transition services program, the Math Support Plan, additional Alternative Education programs and Textbook and Instructional Materials adoption. Other Employee Benefits expenditures rose by \$4.3 million (5.0%), due to the increased cost of health insurance. Retirement Costs decreased by \$11.0 million (11.5%) as the unfunded liability portion of retirement costs fell due to several years of higher market return on investments, along with an increase in Teachers' Retirement reimbursements.

The General Fund's equity balance as of June 30, 2001 was \$266.5 million, as compared to \$220.7 million in 2000. The increase is primarily due to an increase in Departmental and other revenue, licenses and permits and prior year receivables collected for Payment in Lieu of Taxes.

#### *Fiscal 2002*

Modest revenue growth continued in fiscal year 2002. Property Taxes increased by \$116.0 million, as a result of changes in accounting principles combined with an increase in the property tax base. Excise Taxes and Payments In Lieu of Taxes show a net increase of \$2.1 million. The increase between these two revenue sources was the result of increased revenues in Room Occupancy Taxes, Aircraft Fuel Excise Taxes, Excise Taxes, along with a decrease of \$4.3 million in revenue received from Massport. The decrease in Investment Income was the result of weaker market performance and lower interest rates yielding poorer returns on otherwise favorable cash. The Licenses and Permits decrease is due to a slowdown in building permits for commercial (i.e., office towers, hotels, etc.) and residential construction projects undertaken throughout the City. Commonwealth Distributions fell slightly by \$.9 million or 0.2% from fiscal year 2001. Departmental and Other Revenue increased by \$3.9 million or 6.7%, due to one-time receipts for prior years' reimbursements. Fines revenue increased by \$2.7 million, or 4.8%, due to increased collection efforts by the Transportation Department on parking fines and an increase in the number of violations issued by Code Enforcement.

Overall, fiscal year 2002 expenditures increased from the previous year. Spending for Public Safety increased \$32.4 million (8.7%) due to the execution of collective bargaining agreements for the current year. The increase in Public Works for collective bargaining was offset by a decrease of \$6.2 million in snow removal costs as the result of a milder winter; the overall effect being a decrease of \$2.6 million (3.4%) for Public Works. Property & Development increased \$7.4 million (18.1%) due to collective

bargaining and Boston's continuing effort to support additional affordable housing programs. Schools increased \$16.3 million (2.7%) due to the Transition Program, Math Support Plan, "Focus on Children" policy, school resource allocations and collective bargaining. Other Employee Benefits' expenditures rose by \$17.2 million (19.0%) due to higher participation in Medicare and the increased cost of health insurance. Retirement costs decreased by \$2.9 million (3.5%) as a result of reimbursements from the Commonwealth Retired Teachers Pension Fund. Human Services (\$1.0 million), Parks and Recreation (\$0.7 million) and Capital Outlays (\$1.0 million) increased slightly, while County (\$1.5 million), Judgments and Claims (\$2.3 million) and Library (\$1.7 million) experienced decreases for fiscal year 2002.

As a result of implementing GASB Statement No. 34 and other related Statements, certain fund liabilities that existed at June 30, 2001 were reduced to reflect only the portion of the liability that was "due." The impact of this change on the general fund equity was to reduce liabilities and increase fund equity at July 1, 2001 by \$67.7 million. For specific additional information, please see "Accounting and Reporting Practices" on page 19.

## SUMMARY AND COMPARISON OF OPERATING BUDGETS

In accordance with state law and regulations, the City's legally adopted General Fund budget as shown below is prepared on a "budgetary basis" instead of generally accepted accounting principles ("GAAP"). For purposes of comparison the table below includes budgetary actual results for fiscal 1999 through fiscal 2002, alongside fiscal 2003 budget numbers. Among the key differences between these two sets of accounting principles are that "budgetary" records property tax as it is levied while GAAP records it as it becomes susceptible to accrual, "budgetary" records certain activities and transactions in the General Fund that GAAP records in separate funds, and "budgetary" records as an expenditure any amount raised to cover for a prior year deficit, and as a revenue any available funds raised from prior year surpluses, while GAAP ignores these impacts from prior years. The difference in accounting principles inevitably leads to varying results in excess or deficiency of revenues over expenditures.

### Fiscal 2003 Budget Compared to Fiscal 1999, Fiscal 2000, Fiscal 2001 and Fiscal 2002 Actual Results General Fund—Budgetary Basis (\$ in millions)\*

	Fiscal 1999 Actual Results	Fiscal 2000 Actual Results	Fiscal 2001 Actual Results	Fiscal 2002 Actual Results	Fiscal 2003 Budget <sup>(1)</sup>
Revenues:					
Recurring Revenue					
Property Taxes.....	\$ 822.4	\$ 866.2	\$ 917.9	\$ 972.7	\$ 1,035.3
Overlay Reserve <sup>(2)</sup> .....	(42.7)	(41.2)	(43.9)	(46.3)	(39.8)
Excises .....	68.0	68.9	72.7	80.6	72.0
Fines .....	47.5	55.9	59.8	60.7	61.5
Interest on Investments.....	17.4	21.9	26.1	14.8	10.8
Payments In Lieu Of Taxes .....	26.5	18.9	25.9	19.6	20.4
Urban Redevelopment Chapter 121A ...	36.5	37.6	46.9	48.4	44.8
Misc. Department Revenue .....	44.2	36.0	45.1	54.1	38.4
Licenses and Permits .....	20.9	28.7	37.8	29.6	25.2
Penalties & Interest .....	11.0	10.6	8.0	8.1	8.4
Available Funds.....	3.1	6.7	8.4	4.6	11.8
State Aid.....	457.3	474.9	483.8	496.1	474.1
Teachers' Pension Reimbursement.....	37.3	38.8	41.4	45.3	47.6
Total Recurring Revenue.....	\$ 1,549.4	\$ 1,623.9	\$ 1,729.8	\$ 1,788.3	\$ 1,810.4
Non-Recurring Revenue <sup>(3)</sup> .....	—	—	—	—	14.9
Total Revenues .....	\$ 1,549.4	\$ 1,623.9	\$ 1,729.8	\$ 1,788.3	\$ 1,825.2
Expenditures:					
Departmental Expenditures					
City Departments.....	\$ 656.8	\$ 671.6	\$ 727.8	\$ 755.3	\$ 768.9
Boston Public Health Commission .....	53.5	58.2	62.1	64.0	63.9
County Departments.....	7.9	6.1	6.5	4.8	4.8
School Department.....	543.4	579.2	611.9	639.7	650.5
Collective Bargaining Reserve.....	2.0	8.5	12.5	6.2	7.5
Total Departmental Expenditures ..	\$ 1,263.5	\$ 1,323.6	\$ 1,420.9	\$ 1,470.1	\$ 1,495.7
Fixed Costs					
Pensions <sup>(4)</sup> .....	\$ 120.3	\$ 128.6	\$ 127.5	\$ 129.7	\$ 134.4
Debt Service <sup>(5)</sup> .....	92.3	96.5	106.0	115.6	126.6
State Assessments.....	65.6	67.0	66.8	67.8	68.5
Total Fixed Costs.....	\$ 278.1	\$ 292.1	\$ 300.3	\$ 313.1	\$ 329.6
Total Recurring Expenditures .....	\$ 1,541.7	\$ 1,615.7	\$ 1,721.2	\$ 1,783.1	\$ 1,825.2
Excess of Revenues Over Expenditures .....	\$ 7.7	\$ 8.2	\$ 8.6	\$ 5.2	\$ —

\* Columns may not add due to rounding.

- (1) Represents the budget at the time of approval of the tax rate on December 17, 2002, with certain minor adjustments as of December 20, 2002.
- (2) The City is required by law to reserve an amount equivalent to between 5% and 6% of each year's net property tax levy in a reserve for property tax abatements. If the City's reserves for abatements prove at the end of the fiscal year to be insufficient to cover the City's abatement liability, the City is required to raise in the following year's tax rate an amount sufficient to generate additional reserves to cover the shortfall. In FY03 the City received approval from the state Department of Revenue to reserve less than 5% due to a recent trend of low abatement liability.
- (3) Non-recurring revenue in fiscal 2003 represents a portion of the proceeds from the Surplus Property Fund.
- (4) Excludes noncontributory pensions and annuities that are included in departmental expenditures. The amount of such noncontributory pensions and annuities equaled \$6.2 million, \$6.3 million, \$5.9 million, \$6.3 million and \$6.0 million respectively, in fiscal 1998, 1999, 2000, 2001, and 2002.
- (5) The debt service amount is derived from principal and interest, less certain offsetting revenues. The revenues utilized to offset debt for budgetary and tax rate setting purposes vary from those used in the table "Debt Service Requirements—Fiscal 1998-2002." See "City Indebtedness—Debt Service Payments."

Source: City of Boston Auditing Department and Office of Budget Management.

## **Fiscal 2003**

The following is a summary of the City's fiscal 2003 budget on a budgetary accounting basis. The figures cited are from the fiscal 2003 tax rate budget at the time of approval by the Massachusetts Department of Revenue on December 17, 2002, with certain minor adjustments as of December 20, 2002. Later updates may occur if supplemental appropriations are deemed necessary by both the Mayor and the City Council and sufficient funds are available.

### *Expenditures*

In fiscal 2003, the City's budgeted expenditures total \$1.83 billion including direct expenditures for departmental services and fixed expenses, representing an increase of \$42.1 million or 2.4% from fiscal 2002 actual expenditures. Budgeted fiscal 2003 departmental expenditures compare with actual fiscal 2002 expenditures as follows: City departments increased \$13.6 million or 1.8% primarily due to increases in health insurance (\$5.1 million) and trash collection and disposal (\$12.5 million) offset by decreases in other areas; the Boston Public Health Commission decreased \$0.1 million or 0.2%; County departments were level funded; the School Department increased \$10.8 million or 1.7%; the Collective Bargaining Reserve increased \$1.3 million. Budgeted fixed expenses for fiscal 2003 compare with the fiscal 2002 actual expenses as follows: Pensions increased \$4.7 million or 3.6%; debt service increased \$11.1 million or 9.6%; State Assessments increased \$0.7 million or 1.1%.

### *Revenues*

Budgeted revenues for fiscal 2003 equaled \$1.83 billion, an increase of \$36.9 million or 2.1% from fiscal 2002 actual revenues. Selected fiscal 2003 budgeted revenues compare with fiscal 2002 actual revenues as follows: the Property Tax Levy (without the overlay reserve) increased \$62.6 million or 6.4%; Excises decreased \$8.6 million or 10.7%; Fines increased \$0.8 million or 1.4%; Interest on Investments decreased \$4.1 million or 27.4%; PILOTs increased \$0.7 million or 3.8%; Chapter 121A distributions decreased \$3.6 million or 7.5%; Miscellaneous Department Revenue decreased \$15.8 million or 29.1%; Licenses and Permits decreased \$4.4 million or 14.9%; Available Funds increased \$7.3 million or 159%; State Aid decreased \$22.0 million or 4.4%; Non-Recurring Revenue increased by \$14.9 million or 100%.

The increase in Property Tax is due to continued strong new growth and the City's emphasis on reducing property tax abatement liabilities and the resulting need to reserve less for them from the gross levy. The decrease in Excises is due to an expected decline in motor vehicle excise and continued decline in room occupancy excise collections available for transfer from the City's Convention Center Fund to its General Fund along with depressed jet fuel excise collections. The decrease in Interest on Investment is due to low investment earnings due to continue low interest rates. The decrease in Miscellaneous Department Revenue is due to the absence of one-time revenues present in fiscal 2002 and the elimination of a reimbursement for cost of living increases on workers compensation claims from a pooled fund from which the City withdrew. The decrease in State Aid is due entirely to vetoes of specific local aid accounts undertaken by the governor during the state budget process.

Property Tax and State Aid will continue to be important to the City's revenue growth. Property tax revenues will rise \$62.6 million in fiscal 2003 after having increased by over \$50 million in fiscal 2002 and fiscal 2001. The near-term outlook for the City's property tax levy is of sustained growth. In fiscal 2003 State Aid has decreased by \$22.0 million, reflecting the effect of the national recession on state revenues already reduced by tax cuts in prior years, and the gubernatorial vetoes of local aid accounts during the state budget process.

The newly inaugurated governor, anticipating further revenue shortfalls by the close of the current fiscal year, asked for and received permission from the legislature to expand his unilateral, mid-year budget cutting authority to include other tax revenue funded accounts such as local aid to municipalities and regional school districts. Under the new legislation the governor's options to reduce appropriations are limited in time to the current fiscal year, limited in scope to four specific accounts within local aid funding and away from the appropriations of other constitutional branches of state government, and limited in magnitude, permitting reductions equivalent to not more than one-third of the projected statewide tax revenue shortfall. In addition, a limitation is placed on any reduction to education funding by protecting the "foundation" school budgets of all communities and regional school districts. On January 30, 2003, the governor announced a reduction of \$114 million statewide to two local aid accounts: Lottery and

Additional Assistance. Each account was cut in equal proportion, following the original pattern of distribution to each municipality. The City sustained reductions valued at \$5.9 million and \$18.1 million, respectively, to the above accounts, for a total of \$24.0 million or 1.3% of the current operating budget.

### *Pensions*

Fiscal 2003 marks the third year of an approved three-year pension-funding schedule. Pension funding costs will increase in fiscal 2003 by \$4.7 million or 3.6%. The rate of return on the investment of pension assets for three calendar years prior to the approval of the new funding schedule exceeded the assumed rate of return in the pension-funding schedule by a significant margin. These actuarial gains are incorporated into the City's current pension funding schedule with one caveat: the SBRS, with the City's encouragement, has utilized "asset smoothing" in this schedule, thereby utilizing its conservative long-term rate of return assumption to determine asset value for funding schedule purposes instead of the volatile market rate of return.

The added pension liability as a result of the 2002 ERI (described in "Retirement Systems") shall be amortized and paid by the City over the long-term as part of the City's annual pension funding. This increase in pension cost is offset by savings in the City's operating budget in fiscal 2003 and beyond by firmly controlling the backfill of vacant positions.

### **Cash Flows**

The following table represents the end-of-month unaudited cash balances for the City's General Fund commencing with fiscal 2000 and ending with the most recent month for which data is available. Prudent cash management policies have enabled the City to avoid the need for short-term borrowings for operating purposes since fiscal 1987.

The cash balances presented do not necessarily reconcile with revenue and expenditures for similar accounts calculated on a budgetary accounting basis or on a GAAP basis. In order to achieve revenue and expenditure data for a particular fiscal year, the cash flow receipts and disbursement results are subject to normal year-end closing adjustments.

#### **General Fund End-of-Month Cash Balances for Fiscal 2000-2003**

	(\$ in thousands)			
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
July.....	\$404,071	\$463,943	\$614,109	\$682,030
August.....	408,315	503,510	648,352	713,968
September.....	417,992	506,041	659,778	705,532
October.....	397,504	499,014	578,666	694,431
November.....	390,254	499,524	578,712	680,607
December.....	308,927	481,893	527,393	658,939
January.....	394,984	520,855	543,724	412,265
February.....	400,916	541,341	544,255	—
March.....	401,086	521,430	588,263	—
April.....	422,774	528,692	602,094	—
May.....	433,286	532,683	604,182	—
June.....	456,742	592,786	640,038	—

Source: City of Boston Treasury Department.

## CITY REVENUES

The principal sources of City revenue available to meet operating expenditures are presented below. Except as specifically noted, all amounts are stated on a budgetary accounting basis. References to fiscal 2003 are unaudited.

### Property Taxes

Real and personal property taxes are the largest single source of the City's revenue. The City's gross property tax levy for fiscal 2003 equals \$1.035 billion, or 56.7% of City General Fund revenues for such period. Approximately 53.0% of the land area in the City is tax-exempt. Certain properties are subject to arrangements that suspend the imposition of real property taxes at normal rates in order to encourage development. See "City Revenues—Property Taxes—Revenues from Chapter 121A Properties" below.

As discussed below, Proposition 2½ limits the level of property taxation in the City. In fiscal 2003, the City has stabilized well below the 2.5% ceiling on the overall effective tax rate. The recent growth in the real estate market has removed any immediate threat of reaching the levy ceiling.

#### *Proposition 2½*

Proposition 2½ is a statewide tax limitation subject to amendment or repeal by the legislature that imposes two separate limits on the annual tax levy of a city or town.

The primary limitation of Proposition 2½ is that the property tax levy in any city or town in the Commonwealth cannot exceed 2.5% of the full and fair cash valuation of the taxable real estate and personal property in that city or town (the "2½ ceiling"). The only exception is the temporary exclusion of debt service or capital costs from the levy ceiling restrictions, as described below.

Within the limits of the 2½ ceiling, a secondary limitation imposed by Proposition 2½ (the "growth limit") is that no levy in a fiscal year may exceed the preceding year's maximum allowable tax levy by more than 2.5%, subject to exceptions for the following: property newly added to the tax rolls and valuation increases other than as a result of a general revaluation ("new growth"); temporary exclusions from the tax levy limitation to pay for capital costs or debt service on indebtedness; and "overrides," which are permanent increases in the tax levy for general expenditures of the city or town. Exclusions and overrides must be approved by a referendum of the voters of the city or town. The levy is permanently increased by the addition of new growth and overrides. The exclusion of debt service by referendum temporarily increases the levy amount and the duration of the specific debt excluded. The growth limit may be exceeded by an override in any year by a majority vote of the voters. An increase in the growth limit under this procedure, however, does not permit a tax levy in excess of the 2½ ceiling, since the two limitations apply independently. The applicable tax limits may also be reduced in any year by a majority vote of the voters. The City's gross levy in fiscal 2003 equals \$1.035 billion. In fiscal 2003, the allowable 2.5% increase equals \$24.3 million, and "new growth" equals \$38.6 million as certified by the Commonwealth of Massachusetts Department of Revenue.

In order to mitigate its adverse impact on local government revenues, Proposition 2½ limits the annual rate of increase of aggregate, statewide assessments made upon cities and towns by the Commonwealth and certain of its governmental entities, such as assessments made upon the City and certain other cities and towns for the Massachusetts Bay Transportation Authority ("MBTA"), to 2.5% of the prior year's assessment. The MBTA assessments on the City equaled \$62.5 million, \$63.1 million, and \$63.9 million, respectively, in fiscal 2001, 2002 and 2003.

Proposition 2½ also limits the motor vehicle excise tax rate to 2.5%. The City's net receipts from the motor vehicle excise tax equaled \$37.0 million, \$41.8 million and \$42.8 million, respectively, in fiscal 2000, 2001 and 2002.

The City's Bond Procedure Act of 1983 mandates assessment of taxes in excess of the Proposition 2½ levy limits to the extent that the debt service on City obligations exceeds the levy limit, with no allowance made for any other expenditures of the City. The provision would not, however, increase the levy limit applicable to the City to the extent that debt service expenses on City obligations to be funded from the levy are less than the applicable levy limit. See "City Indebtedness—Classification of City Debt."



**Proposition 2½ Property Tax Levy Limits, Fiscal 1999-2003<sup>(1)</sup>**  
**(\$ in thousands)**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Total Assessed Valuation	\$36,050,449	\$39,930,918	\$50,494,513	\$54,189,508	\$57,533,345
Levy Limit (Primary)	819,313	865,866	917,750	972,449	1,035,297
Levy Ceiling (Maximum)	901,261	998,273	1,262,363	1,354,738	1,438,334
Tax Levy <sup>(2)</sup>	819,300	865,752	917,750	972,234	1,035,271
Under Levy Ceiling	81,961	132,521	344,613	382,504	403,063

(1) Represents amounts assessed on January 1, and subsequently certified by the Commonwealth's Department of Revenue in December of each fiscal year and does not include Omitted Assessments.

(2) For each fiscal year, the amount of the actual tax levy is the largest amount possible. The levy limit would be exceeded if either the commercial or residential rate were raised an additional cent (\$0.01).

Source: City of Boston Assessing Department

*Revaluation*

State law mandates a revaluation of all taxable property every three years. These revaluations are reviewed and certified by the Commonwealth. In the years between the revaluations, the Commonwealth permits municipalities to establish new values on the basis of market changes, using the most recent revaluation as a basis. The City has adjusted certified property values in accordance with this procedure in years when market conditions indicated such adjustment was necessary.

The City's seventh three-year revaluation was certified by the Commonwealth in December 2000. The property values produced as a result of this revaluation were the basis for assessments beginning in fiscal 2001. The next revaluation will be in fiscal year 2004.

<u>Assessment Date</u>	<u>Certified Triennial Valuations Real and Personal Property Value</u>	<u>Applicable Years</u>
January 1, 2000	\$50.49 billion	fiscal 2001 through 2003
January 1, 1997	33.76 billion	fiscal 1998 through 2000
January 1, 1994	28.12 billion	fiscal 1995 through 1997

Source: City of Boston Assessing Department

*Major Abatement Cases*

One Federal Street, an office tower in the City's financial district, had its assessed value contested for fiscal years 1997-2001. The Commonwealth's Appellate Tax Board (ATB) heard the case in December 2001, and issued a decision in May of 2002. The ATB overwhelmingly rejected the appeal. The ATB awarded an abatement of only 1% of the aggregate tax assessed for the five years. No abatement was awarded in three of the fiscal years including fiscal year 2001, which should aid the City in defending similar abatement appeals in the future. Each side has appealed the decision of the ATB.

*Taxation by Use; Tax Rates*

The property tax base in the City consists of personal property and classes of real estate. The following table shows the classes of taxable real property assessed as of January 1, 2002. The fiscal 2003 tax rates were applied to the January 1, 2002 valuation to determine levy and tax liability for fiscal 2003.

**Assessed Valuation of Taxable Real Property by  
Real Estate Classes, Assessment Dated January 1, 2002**

<b>Land Area</b>				
<u>Real Estate Classes</u>	<u>(Square feet)</u>	<u>Land Valuation</u>	<u>Building Valuation</u>	<u>Total Valuation</u>
Apartments .....	27,363,421	\$847,321,281	\$2,414,262,667	\$3,261,583,948
Agricultural.....	546,757	48,800	143,200	192,000
Commercial .....	76,995,896	3,663,298,458	12,289,148,703	15,952,447,161
Commercial Condominium .....	—	315,600	837,547,800	837,863,400
Residential Condominium .....	—	11,644,900	10,965,996,200	10,977,641,100
Commercial Land .....	28,239,079	420,156,079	183,825,320	603,981,399
Condominium Main <sup>(1)</sup> .....	35,257,163	—	—	—
Condominium Parking.....	—	833,100	32,376,000	33,209,100
Industrial.....	49,095,282	488,843,866	564,016,445	1,052,860,311
Residential & Commercial .....	16,785,305	639,395,921	1,759,110,645	2,398,506,566
Residential Land.....	37,294,149	144,850,300	51,589,269	196,439,569
1-Family .....	154,099,886	2,308,584,176	5,522,127,846	7,830,712,022
2-Family.....	89,181,081	1,321,195,398	4,072,275,159	5,393,470,557
3-Family .....	58,127,429	984,187,188	3,607,662,641	4,591,849,829
4-Family (4-6 units).....	<u>10,744,789</u>	<u>371,175,540</u>	<u>888,833,673</u>	<u>1,260,009,213</u>
Total .....	<u>583,730,237</u>	<u>\$11,201,850,607</u>	<u>\$43,188,915,568</u>	<u>\$54,390,766,175</u>

(1) Condominium Main represents the total land area of all residential and commercial condominiums and condominium parking units.

Source: City of Boston Assessing Department.

**Tax Rates, Fiscal 1999-2003  
(per \$1,000 of assessed value)**

<u>Fiscal Year</u>	<u>Commercial, Industrial and Personal Property</u>	<u>Residential Property</u>
2003.....	\$31.49	\$11.29
2002.....	30.33	11.01
2001.....	30.17	10.58
2000.....	34.21	13.15
1999.....	37.04	13.44

Source: City of Boston Assessing Department.

The City has four classes of property for taxation purposes: residential real property, open space land, commercial and industrial. The City has utilized this classification in adopting its fiscal 1983 through fiscal 2003 tax rates. The fiscal 2003 tax rate is \$11.29 per \$1,000 for residential property and \$31.49 per \$1,000 for commercial, industrial and personal property. See “City Revenue—Property Taxes—Real Estate Tax Levies and Collections” below, for information concerning the level of such levies, and their collection.

A city or town may exempt a portion of the assessed valuation of residential real property when used as the taxpayer's principal residence. The amount of the residential exemption can equal up to 30% of the average assessed value of all residential property in the City. In fiscal 2003, qualifying residents who received the residential exemption each had their taxable assessed values reduced by \$87,524. The residential exemption has no impact on the overall tax rate.

Taxable property values increased for fiscal 2003. See “City Revenues—Property Taxes—Tax Base” below. The overall effective tax rate is the product of the total tax levy divided by the total taxable property value. The overall effective tax rate for fiscal 2003 equals \$17.99 per \$1,000 of assessed value, below the \$25 per thousand ceiling on the overall tax rate imposed by Proposition 2½.

### Tax Base

The following table shows, for purposes of year-to-year comparison, the recent assessed valuations with respect to all property in the City subject to taxation.

#### Assessed Valuations—January 1, 1998-2002 <sup>(1)</sup> (\$ in thousands)\*

Assessment Date <u>January 1</u>	Value of Taxable Land	Value of Taxable Buildings	Total Value Taxable Land and Buildings	Value of Taxable Personal Property	Total Assessed Taxable Value
2002 .....	\$11,201,851	\$43,188,916	\$54,390,766	\$3,142,579	\$57,533,345
2001 .....	11,080,453	40,219,239	51,299,693	2,889,815	54,189,508
2000 .....	10,912,499	36,885,787	47,798,286	2,696,228	50,494,513
1999 .....	8,616,986	28,666,488	37,283,474	2,647,444	39,930,918
1998 .....	8,561,853	25,189,818	33,751,671	2,298,778	36,050,449

\* Rows may not add due to rounding.

(1) Represents amounts assessed for the fiscal year commencing the following July 1.

Source: City of Boston Assessing Department

The following table is a list of all of the taxpayers in the City that had an aggregate tax liability in excess of \$10.0 million for fiscal 2003. Assessed valuations and fiscal 2003 taxes reflect the valuation of property as of January 1, 2002 and the tax liability using applicable tax rates.

#### Largest Taxpayers: City of Boston, Fiscal 2003<sup>(1)</sup>

Name	Personal Property <sup>(3)</sup>	Real Property	Total Assessed Value	Fiscal 2002 Tax Liability
Equity Office Properties	—	\$2,016,224,000	\$2,016,224,000	\$63,490,894
Boston Edison Company	1,208,411,250	70,814,534	1,279,225,784	40,282,820
BP Prudential	—	815,565,200	815,565,200	25,682,148
John Hancock Mutual Life Insurance Company	—	719,749,600	719,749,600	22,664,915
Fort Hill Associates	—	611,018,000	611,018,000	19,240,957
World Financial Partners	—	587,902,000	587,902,000	18,513,034
TST One Twenty Five High Street	—	483,259,500	483,259,500	15,217,842
New England Telephone & Telegraph <sup>(2)</sup>	313,087,100	124,381,647	437,468,747	13,775,891
UIDC of Massachusetts, Inc.	—	398,065,500	398,065,500	12,535,083
Mass Joint Venture	—	380,302,488	380,302,488	11,534,574
One Hundred Federal Street, LPS	—	366,043,000	366,043,000	11,526,694
Dewey Square Tower Associates	—	337,717,996	337,717,996	10,634,740

(1) The methodology used in creating the table involves the search of the title holder, or holders, of all major parcels of property in the City. This methodology does not necessarily locate all parcels owned by affiliates, nor does it show the percentage share of ownership in a particular parcel.

(2) New England Telephone & Telegraph Co. (NE T&T) is the owner of record of the property used to calculate these numbers. NE T&T is now Verizon.

(3) Pursuant to Chapter 59 of the General Laws, Section 4, personal property consists of movable physical items not permanently attached to real estate. Many items of personal property are exempt from taxation in Massachusetts. There are three general types of personal property that are taxable: business and professional furnishings; household furnishings in property other than the principal residence (for example, a summer house), and personal property of public utilities.

Source: City of Boston Assessing and Treasury Departments.

### Real Estate Tax Levies and Collections

The following table shows the level of property tax levies, tax levies net of budgeted reserves for abatements ("Net % Gross"), the gross amount and proportion of each levy collected during the year of levy, the cumulative amount (net of refunds) and proportion of each levy collected as of June 30, 2002 and the total amount (net of refunds) of taxes (current and all prior levies) collected during fiscal 1998 through 2002. Excluded from the following table are receipts from PILOTs and receipts on account of Chapter 121A corporations.

**Tax Collections In Relation To Property Tax Levies Fiscal 1998-2002**  
**(Statutory Accounting Basis)**  
**(\$ in millions)**

<u>Fiscal Year</u>	<u>Tax Levy</u>			<u>Tax Levy Collected Within year of Levy</u>			<u>Tax Levy Net of Refunds Collected As Of June 30, 2002</u>			<u>All Taxes Collected In Fiscal Year<sup>(1)</sup></u>
	<u>Gross</u>	<u>Net</u>	<u>Net %</u>	<u>Gross Amount</u>	<u>Gross % Levy</u>	<u>Net % Levy</u>	<u>Net Amount</u>	<u>Gross % Levy</u>	<u>Net % Levy</u>	<u>Net Amount</u>
2002 .....	\$972.7	\$932.4	95.9%	\$963.7	99.1%	103.4%	\$958.9	98.6%	102.8%	\$961.7
2001 .....	915.8	874.0	95.4	909.0	99.3	104.0	902.9	98.6	103.3	904.2
2000 .....	866.2	823.9	95.1	854.8	98.7	103.8	847.4	97.8	102.9	849.4
1999 .....	822.4	779.7	94.8	801.4	97.4	102.8	798.2	97.1	102.4	800.9
1998 .....	782.2	745.2	95.3	763.6	97.6	102.5	758.9	97.0	101.8	762.6

(1) Includes the total amount of taxes (current levy, all prior levies, and tax titles), net of refunds, collected during each fiscal year since 1998.

Source: City of Boston Treasury Department.

The City's property tax bills are mailed quarterly in July, October, December, and April. The bills sent out in July and October represent preliminary tax bills each equal to one quarter of the previous fiscal year's liability. The fair cash value of the property or assessment for the purpose of determining the new fiscal year tax liability is reflected in the third and fourth quarter bills, which are mailed in December and April.

*Revenues from Chapter 121A Corporations*

A local government in cooperation with its redevelopment authorities may suspend the imposition of real property taxes at normal levels on properties determined to be "blighted" in order to encourage redevelopment of such properties by special corporations organized under Chapter 121A ("Chapter 121A Corporations"). The City receives three forms of revenue from Chapter 121A Corporations. The first consists of excise PILOTs for each Chapter 121A Corporation that are collected by the Commonwealth and distributed to the City. The second form of revenue is contract payments resulting from agreements that may be entered into between the Chapter 121A Corporation and the City relating to City services available to the development. A third form of revenue does not generate significant payments.

Revenue received by the City from Chapter 121A Corporations for the last three fiscal years are shown in the following table:

**Revenues To The City From Chapter 121A Corporations**  
**(\$ in thousands)**

<u>Fiscal Year Ended June 30</u>	<u>Excise Payments In Lieu Of Taxes (Section 10)</u>	<u>Contracts Payments (Section 6A)</u>	<u>Total</u>
2002 .....	\$31,658.7	\$ 16,714.9	\$48,373.6
2001 .....	32,827.2	14,048.2	46,875.4
2000 .....	27,266.5	10,381.0	37,647.5

Source: Office of Budget Management and Auditing Department.

*Delinquent Taxes and Tax Titles*

Real and personal property taxes (not including motor vehicle, the room occupancy and the aircraft fuel excises) are based on values established by the Assessing Department as of each January 1 and, beginning in fiscal 1992, are due in quarterly payments every August, November, February and May. Delinquent real estate and personal property taxes are subject to a 14% per annum interest charge. Subsequent to the end of the fiscal year in which real estate taxes become delinquent, the City secures its lien for such taxes by taking legal title to all delinquent properties, subject to the owners' right of redemption. After this process, known as a "tax taking," is complete, interest accrues on outstanding amounts of delinquent real estate taxes at the rate of 16% per annum. If the taxes remain unpaid for a period of six months from the tax taking, the City may petition the Land Court to foreclose the equity

owner's right of redemption. Upon foreclosure, the City may then sell the property in order to liquidate the tax liability. The City estimates that the value of the properties to which such tax titles are attached is substantially less than the amount of delinquent taxes, charges, and interest owed.

Tax title receipts were approximately \$21.2 million, \$14.4 million, and \$13.5 million respectively, in fiscal 2000, 2001, and 2002.

## **Excise Revenues**

### *Room Occupancy Excise*

The City currently has in effect a 4% local room occupancy excise upon the transfer of occupancy of any room in a hotel, lodging house or motel. The Commonwealth collects this tax and distributes it to the City quarterly. The City's room occupancy excise receipts totaled \$27.8 million, \$29.8 million, and \$25.0 million, respectively, in fiscal 2000, 2001, and 2002.

Pursuant to Chapter 152 of the Acts of 1997, as amended (the "Convention Center Act"), the City has established the City of Boston Room Occupancy Excise Fund (the "Excise Fund") to provide for the payment of the principal of and interest on indebtedness issued by the City to fund the City's share of costs of the Boston Convention and Exhibition Center Project (the "BCEC Project"). See "City Indebtedness – Special Obligation Debt."

Of the \$25.0 million in room occupancy excise taxes collected in fiscal 2002, \$4.0 million was retained in the Excise Fund, and \$21.0 million was transferred into the General Fund as authorized by the Convention Center Act. In fiscal 2001 \$14.8 million of the \$29.8 million in room occupancy excise taxes collected was retained in the Excise Fund and \$15.0 million was transferred into the General Fund. In fiscal 2000, \$3.9 million of the \$27.8 million in room occupancy excise taxes collected was retained in the Excise Fund and \$23.9 million was transferred into the General Fund.

### *Aircraft Fuel Excise*

The City also assesses an aircraft fuel excise upon the sale or use of jet fuel. The Commonwealth collects this tax and distributes it to the City semi-annually. The City's aircraft fuel excise receipts totaled \$7.6 million, \$15.3 million, and \$16.2 million, respectively, in fiscal 2000, 2001, and 2002.

### *Motor Vehicle Excise*

The Commonwealth assesses an excise on the registration of motor vehicles, the proceeds of which are received by the municipality of residence of the registered owner. The excise is a uniform rate of \$25 per \$1,000 of vehicle valuation. The City's annual motor vehicle receipts totaled \$37.0 million, \$41.8 million, and \$42.8 million, respectively, in fiscal 2000, 2001, and 2002.

### *Vehicular Rental Surcharge*

The Commonwealth imposes a \$10 surcharge on each vehicular rental transaction contract in the City. One dollar of each surcharge is paid to the City for deposit in the City's Excise Fund for application to the payment of the principal of and interest on indebtedness issued by the City to fund the City's share of costs of the BCEC Project. The City's cumulative share of the surcharge as of June 30, 2002 was approximately \$5.1 million. See "City Indebtedness – Special Obligation Debt."

## **Departmental Revenues**

Several City departments generate significant revenues from fees and charges.

### *Parking Fines*

The City's annual parking fine receipts totaled \$53.6 million, \$55.5 million, and \$56.5 million respectively, in fiscal 2000, 2001, and 2002.

### *Public Works Rents and Permit Fees*

The Permit Branch of the Public Works Department rents the City's right-of-way to fiber optic cable companies and charges permit fees for street occupation permits. The City's annual Public Works rents and fees totaled \$4.6 million, \$4.9 million, and \$2.8 million, respectively, in fiscal 2000, 2001, and 2002.

### *Building Permit Fees*

The Inspectional Services Department performs a variety of functions, such as the granting of building permits, for which fees are imposed. The City's annual building permit fees totaled \$18.5 million, \$27.2 million, and \$19.1 million, respectively, in fiscal 2000, 2001, and 2002.

### *Investment Income*

The City's annual investment income averaged \$20.9 million during the three-year period from fiscal 2000 through fiscal 2002. These earnings are the combined results of cash balances and short-term interest rates. The City's investment income equaled \$21.9 million, \$26.1 million, and \$14.8 million, respectively, in fiscal 2000, 2001, and 2002.

### *Taxi Medallion Proceeds*

The Convention Center Act provides that all taxi medallions (licenses) issued by the City's Police Commissioner shall be issued by public auction, sale or other competitive process. Proceeds from the issuance of the first 235 medallions sold after the effective date of the Convention Center Act, at an aggregate price of approximately \$36.2 million, were deposited in the City's Excise Fund and were applied on May 1, 2002 to pay a portion of the principal due on certain bond anticipation notes which were issued by the City to temporarily finance the City's share of costs of the BCEC Project. The Commissioner expects to sell an additional 25 medallions during fiscal year 2003. Proceeds from the sale of the additional medallions will be applied to pay further costs of the BCEC Project or to pay or provide for the principal of other indebtedness issued by the City for such purpose. See "City Indebtedness – Special Obligation Debt."

### **State Aid**

State aid to cities and towns in the Commonwealth, with few exceptions, is subject to annual appropriation by the state legislature. Existing state laws limit state tax revenues, however, and thus potentially limit the amounts available to the Commonwealth for distribution.

State aid to the City's General Fund has increased every year since fiscal 1993 and will decrease by \$22.0 million in fiscal 2003 to \$474.1 million, a 4.4% decrease over fiscal 2002 actual. This decrease reflects the effect of the national recession on state revenues already reduced by tax cuts in prior years, and the gubernatorial vetoes of local aid accounts during the state budget process.

The newly inaugurated governor, anticipating further revenue shortfalls by the close of the current fiscal year, asked for and received permission from the legislature to expand his unilateral, mid-year budget cutting authority to include other tax revenue funded accounts such as local aid to municipalities and regional school districts. Under the new legislation the governor's options to reduce appropriations are limited in time to the current fiscal year, limited in scope to four specific accounts within local aid funding and away from the appropriations of other constitutional branches of state government, and limited in magnitude, permitting reductions equivalent to not more than one-third of the projected statewide tax revenue shortfall. In addition, a limitation is placed on any reduction to education funding by protecting the "foundation" school budgets of all communities and regional school districts. On January 30, 2003, the governor announced a reduction of \$114 million statewide to two local aid accounts: Lottery and Additional Assistance. Each account was cut in equal proportion, following the original pattern of distribution to each municipality. The City sustained reductions valued at \$5.9 million and \$18.1 million, respectively, to the above accounts, for a total of \$24.0 million or 1.3% of the current operating budget.

In addition to state aid, the City receives a reimbursement for the cost of teachers' pensions. Teachers' pensions are paid directly by the State Teachers Retirement System for all teacher retirees in the state other than those who retire from the Boston school system. In their case, pensions are paid by the State-Boston Retirement System, funded by the City, and the City is reimbursed by the Commonwealth on an actual pension payout basis. The City received \$38.8 million, \$41.4 million, and \$45.3 million, respectively, in fiscal 2000, 2001, and 2002. The City expects to receive approximately \$47.6 million in fiscal 2003. See "The City—Retirement Systems."

The level of state aid distribution to the City in any given year is dependent on a number of factors, including the current outlook on the balancing of revenues and expenditures in the state budget, the output of various formulas which determine the level of some but not all state aid, and the policy priorities of the state legislature and the Governor. Particularly, the Commonwealth made a significant shift in state aid

policy beginning with the fiscal 1993 budget, directing the major increases in state aid to education and focusing on the goal of equalizing local education funding. Fiscal 2000 was the final year of the Commonwealth's long-term effort to equalize and reform local public education statewide. The City's education aid increases equaled \$7.9 million, \$11.4 million, and \$8.1 million, respectively, in fiscal 2000, 2001, and 2002. The City received no increase in education aid in fiscal 2003.

In addition to direct state aid the City's financial relationship with the Commonwealth also includes education grants, state funded cost of living adjustments approved prior to fiscal 1998 by the legislature for municipal retirees, and the assumption by the Commonwealth of 100% of the capital costs and approximately 95% of the operating costs associated with the Suffolk County Jails. These payments are governed by state law and are subject to annual appropriations. See "City Revenues—Grants—State Grants" below.

The state Treasurer is empowered to deduct from state aid amounts appropriated to the City the amount of the City's MBTA assessment, any debt service paid by the Commonwealth on "qualified bonds" of the City, and any sums allocable to the Boston Water and Sewer Commission or the City that are due and unpaid on debt issued to the Massachusetts Water Pollution Abatement Trust. Moreover, under the Massachusetts Constitution and state finance law, the state Treasurer has the authority to delay the allotment of state aid appropriations under certain circumstances. In addition, the statute governing the Commonwealth distribution of school aid (which constitutes a portion of the state aid distribution) provides that such payments are due only to the extent that sufficient funds are available therefore. Since June 1990, state distributions have been made quarterly and on a timely basis. The MBTA assessments to the City equaled \$62.5 million, \$63.1 million, and \$63.9 million, in fiscal 2001, 2002 and 2003 respectively.

A key component of the Commonwealth's education reform efforts are the charter schools, public schools administered independently from local school committee and teacher union rules and regulations and Horace Mann Charter schools which have their charters and budgets approved by local school committees. Cities and towns are reimbursed 100%, 60%, 40% and 0% of the increases in costs of charter school tuition over a four-year period, however, the line-item funding this reimbursement in the fiscal 2003 state budget was vetoed by the governor and no funds are available this fiscal year.

There are currently 39 Commonwealth charter schools in Massachusetts, with a total enrollment of approximately 15,000 students. Fifteen of these are attended by Boston residents. The City has 3,562 students enrolled in charter schools with a total tuition cost to the City of \$35.9 million projected for fiscal 2003. In addition to these Commonwealth charter schools, there are a total of seven Horace Mann charter schools currently operating in Massachusetts. Two of these seven are operating in Boston during fiscal 2003.

## **Grants**

The City receives both federal and state grant funds, some of which are determined according to formulas, and others that are awarded competitively. These monies are recorded in special revenue funds.

### *Federal Grants*

Some major sources of federal grant funds in fiscal 2002 included: the Community Development Block Grant (CDBG) entitlement program, which awarded \$25.6 million to the City; the Home Investment Partnership Program (HOME), which awarded \$7.5 million to the City; the Supportive Housing Program furnished \$9.5 million in federal funds. In addition to receiving formula funds like CDBG and HOME, the City received over \$3.6 million from federal grant sources for law enforcement programs during fiscal 2002. The Boston Public Schools also received approximately \$42.9 million from federal grant sources during the 2002 fiscal year. Of these, the major programs were: Title I Elementary & Secondary Education Act of 1965 grants, which totaled \$29.1 million, and the school lunch program, which provided \$22.0 million.

### *State Grants*

Some major sources of state grant funds in fiscal 2002 included \$80.0 million to support the operation of the Suffolk County Sheriff's Department. In fiscal 2002, the Boston Public Schools received approximately \$13.5 million from state grant sources. One of the major programs was Community Partnership Grants, which totaled \$13.9 million.

## **Other**

### *Leased Parking Facility Revenues; Sale of Surplus Properties Revenues*

Pursuant to lease agreements between the City and various private parking operators, the City receives rentals from leased parking facilities. Twenty percent of these receipts are designated by statute for maintenance and renovation of the parking facilities. The remaining amount goes into the City's General Fund. During fiscal 2000, 2001, and 2002, \$1.7 million, \$2.2 million, and \$2.0 million, respectively, were deposited into the City's General Fund from this source.

Under state law, proceeds of the sale of City facilities must be applied to the Surplus Property Disposition Fund to be used to finance capital projects, unless the City Council, with the approval of the Mayor, votes to credit to the General Fund the difference between the sale proceeds and the amount of debt (both principal and interest) incurred in acquiring or improving the sold facility. As of June 30, 2002 there was \$55.9 million remaining in the Surplus Property Disposition Fund. The former Berkeley Street police headquarters was declared surplus property by the City Council. A Request for Proposals was created and a developer has been selected. The current plan calls for the building to be converted into a hotel. The fiscal year 2003 budget includes an appropriation of \$13 million for affordable housing that will be funded through a surplus property disposition fund transfer to the General Fund, to the extent that it is needed.

### *State School Construction Assistance*

In July 2000, the state legislature repealed the former school construction aid program and enacted Chapter 70B of the General Laws ("Chapter 70B"). The range of reimbursement rates under Chapter 70B remains unchanged although the method of determining the appropriate rate is different. Previously, the reimbursement rate was fixed by statute for each city and town. Under Chapter 70B, a formula involving equalized property valuations, per capita income, the percentage of low-income students in the school district, certain incentives and approved desegregation plans are key factors.



## **CITY INDEBTEDNESS**

### **Classification of City Debt**

Direct general obligation debt of the City is debt for which the City's full faith and credit are pledged and for the payment of which all taxable property in the City is subject to ad valorem taxation without limit as to rate or amount. General obligation bonds of the City may also be secured in certain circumstances by a pledge of specific City revenues. The special obligation debt of the City is debt which may be secured solely by a pledge of specific revenues derived from a revenue-producing facility of the City or for the payment of which the City's obligation is subject to annual appropriation.

### **General Obligation Debt**

On June 30, 2002, the City had outstanding approximately \$841.8 million of general obligation long-term bonds, all of which bear fixed rates of interest. On February 1, 2003, the City had approximately \$758.4 million of such bonds outstanding. In addition, on February 1, 2003, the City had \$87.0 million of general obligation bond anticipation notes to support school construction projects. However, \$25.0 million of these notes will be refinanced by the Bonds.

The City is authorized to secure any of its general obligation indebtedness by a pledge of all or any part of any revenues of the City including, without limitation, any tax, such as real property taxes, any fees payable to or for the account of the City, and certain receipts, distributions and reimbursements held or to be received by the City from the Commonwealth. The City currently has no general obligation bonds or notes outstanding secured by such a pledge.

### *Debt Limits*

All debt of the City requires the authorization of the City Council and approval of the Mayor. If the Mayor vetoes a loan order passed by the City Council, the charter of the City provides that the loan order is void and may not be passed over the Mayor's veto. Authorization of bonds under a loan order of the City Council includes, unless otherwise provided, the authorization to issue temporary notes in anticipation of such bonds.

The statutory debt limit for the City consists of a debt limit and a double debt limit. The debt limit is 2.5%, and the double debt limit is 5.0%, of the valuation of taxable property in the City as last equalized by the state Department of Revenue. The equalized valuation of taxable property in the City, approved on April 17, 2001 for use until June 2003 equals \$45.86 billion. The new equalized value of taxable property will be issued for January 2003, but will not be released until approved by the state legislature. Based on the current equalized valuation, the City's debt limit equals approximately \$1.25 billion, and its double debt limit equals \$2.19 billion.

The City may authorize debt up to its debt limit without state approval. The City may authorize debt over the debt limit up to the double debt limit with the approval of the state Emergency Finance Board ("EFB"). The EFB increased the City's debt limit by \$100 million. The EFB's approval of this increased debt limit will remain effective until it is rescinded upon request of the City. As of June 30, 2002, the City had outstanding debt of \$526.9 million subject to the debt limit, and authorized but unissued debt subject to the debt limit of \$392.1 million. Based on the City's current debt limit of \$1.25 billion, the City had the capacity to authorize an additional \$267.6 million of debt as of February 1, 2003.

**Debt Limit**  
**As of February 1, 2003**  
**(\$ in thousands)**

	<b><u>Debt Limit</u></b>
Debt Limit .....	\$1,146,458
Additional Debt Limit <sup>(1)</sup> .....	<u>100,000</u>
	1,246,458
Debt Outstanding as of June 30, 2002 <sup>(2)</sup> .....	(526,915)
Debt Authorized but Unissued as of June 30, 2002 .....	<u>(392,139)</u>
Available Capacity under debt limit as of June 30, 2002 .....	<u>327,404</u>
Refunded amount from August 2002 Refunding Issue .....	20,240
Refunding amount from August 2002 Refunding Issue .....	(21,881)
Refunded amount from November 2002 Refunding Issue .....	26,687
Refunding amount from November 2002 Refunding Issue .....	(25,463)
Debt Authorized in fiscal year 2003 .....	(98,615)
Principal Debt Payments through February 1, 2003 .....	62,064
Authorization reclass between statutes July 2002 to February 2003 .....	<u>(22,844)</u>
Debt incurring capacity as of February 1, 2003 .....	<u><u>\$267,592</u></u>

- 
- (1) The Commonwealth's Emergency Finance Board approved \$100 million of debt capacity from the Double Debt Limit on December 10, 1997.
- (2) The laws of the Commonwealth of Massachusetts provide for general debt limits for the City, consisting of a Normal Debt Limit and a Double Debt Limit. The Normal Debt Limit is 2.5% of the assessed valuation of taxable property in the City as last equalized by the State Department of Revenue, and may authorize debt up to this limit without State approval. The City can also authorize debt up to twice this amount (the Double Debt Limit) with the approval of the State Emergency Finance Board.

Source: City of Boston Auditing Department.

*Outside Debt Limits*

There are many categories of general obligation debt, which are not subject to the debt limit. Some such debt is, however, subject to other debt limits, dollar limitations or state approval. As of February 1, 2003, the City had outstanding long-term debt exempt from the debt limit of \$293.1 million (excluding the Bonds), and authorized but unissued long-term debt exempt from the debt limit of \$177.3 million. Final unaudited numbers as of February 1, 2003 include other components of debt exempt from the debt limit: the Gardner St. Landfill – \$11.8 million, the EDIC – \$7.2 million, the Boston Redevelopment Authority (“BRA”) – \$28.6 million, the Capital Improvements Act of 1966 – \$0.1 million, the Capital Improvements Act of 1973 - \$33.6 million, the Capital Improvements Act of 1991 – \$44.9 million, the Capital Improvements Act of 1996 – \$72.1 million, and the School Project Loan Act M.G.L. Ch. 70B – \$94.7 million.

### Authorized But Unissued Debt

The following table sets forth the amounts and purposes of authorized but unissued general obligation debt of the City as of February 1, 2003.

### Authorized But Unissued Debt As of June 30, 2002 and February 1, 2003

	<u>Statute</u>	<u>Restated Authorizations 6/30/02</u>	<u>New Authorizations 7/02 to 2/03</u>	<u>Authorizations Adjustments 7/02 to 2/03</u>	<u>Authorized/ Unissued 2/1/03 <sup>(1)</sup></u>
<b>GENERAL PURPOSE:</b>					
Acquisition of Land; Outdoor Facilities	C44 s7 (25)	\$ 49,421,289	\$ 8,645,000		\$ 58,066,289
Acquisition of Land; Cemetery Improvements	C44 s7 (20)	865,260	280,000		1,145,260
Acquisition of Land; Landfill Area	C44 s8 (24)	3,815,893			3,815,893
Departmental Equipment	C44 s7 (9)	16,797,724	2,020,000		18,817,724
Rem, Recon, Rehab – Firefighting App	C44 s7 (9A)	10,529			10,529
Equipment – Fire Boat Acquisition	C44 s7 (13)	4,141,893			4,141,893
Computer Hardware	C44 s7 (28)	2,720,250	205,000		2,925,250
Computer Software	C44 s7 (29)	704,854			704,854
Remodeling & Extraordinary Repairs	C44 s7 (3A)	186,645,026	32,205,000	(331,361)	218,518,665
Engineering & Architectural Services	C44 s7 (22)	1,172,337			1,172,337
Urban Redevelopment & Renewal	C121B s20	15,892,775			15,892,775
Economic Development & Industrial Corporation	C1097 s11 Acts'71	6,746,334			6,746,334
<b>SCHOOLHOUSES and SITES:</b>					
Construction of Buildings; Acquisition of Land	C44 s7 (3)	31,824,413		23,175,902	55,000,315
Capital Improvements; Act of 1973	C642 s7 Act'66 as am.	75,771			75,771
Capital Improvements; Act of 1991	C642 s7 Act'66 as am.	2,298,863			2,298,863
Capital Improvements; Act of 1996	C642 s7 Act'66 as am.	9,182,963			9,182,963
School Project Loan; Act of 1948	C70B	110,300,220		(22,868,202)	87,432,018 <sup>(2) (3)</sup>
<b>PUBLIC BUILDINGS; Excluding Schools:</b>					
Capital Improvements; Act of 1973	C642 s7 Act'66 as am.	2,693,188			2,693,188
Capital Improvements; Act of 1991	C642 s7 Act'66 as am.	22,668,195		(705,236)	21,962,959
Capital Improvements; Act of 1996	C642 s7 Act'66 as am.	25,044,485	810,000	728,897	26,583,382
Construction of Buildings; Acquisition of Land	C44 s7 (3)	18,652,732	33,500,000		52,152,732
Boston City Hospital	C659 Acts of 1986	660,000			660,000
<b>PUBLIC WORKS:</b>					
Sidewalk Construction	C44 s7 (6)	12,340,956			12,340,956
Traffic Sig., Pub. Ltg. Fire Alarm Comm. Install.	C44 s7 (14)	11,680,650	3,240,000		14,920,650
Bridge Construction	C44 s7 (4)	19,187,836	4,860,000		24,047,836
Public Ways Construction	C44 s7 (5)	<u>35,973,381</u>	<u>13,660,000</u>	<u>—</u>	<u>49,633,381</u>
<b>TOTAL:</b>		<u>\$591,517,817</u>	<u>\$99,425,000</u>	<u>\$ —</u>	<u>\$690,942,817</u>
“Within” Debt Limit =		392,139,132	98,615,000	22,844,541	510,598,673
“Outside” Debt Limit =		<u>199,378,686</u>	<u>810,000</u>	<u>(22,844,541)</u>	<u>177,314,145</u>
<b>TOTAL:</b>		<u>\$591,517,817</u>	<u>\$99,425,000</u>	<u>\$ —</u>	<u>\$690,942,817</u>

(1) Some numbers may not add due to rounding.

(2) In anticipation of its issuance of bonds, the City issued \$25,000,000 City of Boston School Projects Bond Anticipation Notes, Series A, in February 2001, due to mature on February 1, 2003; said notes are being permanently financed by proceeds of the Bonds.

(3) In anticipation of its issuance of bonds, the City issued \$62,000,000 City of Boston School Projects Bond Anticipation Notes, Series A, in February 2002, due to mature on February 1, 2006.

Source: City of Boston Auditing Department and Office of Budget Management.

**Debt Statement as of February 1, 2003**  
**General Obligation Debt**

<u>Purpose for Which Issued</u>	<u>Principal Outstanding June 30, 2002</u>	<u>Retired in Fiscal 2003 as of February 1</u>	<u>Refunding Bond Issue August 15, 2002</u>	<u>Refunding Bond Issue November 15, 2002<sup>(1)</sup></u>	<u>Principal Outstanding February 1, 2003</u>	<u>Deemed Payable from Related Revenues<sup>(2)</sup></u>	<u>Net Principal Amount</u>
General Purpose	\$356,160,254	\$(45,110,967)	\$1,222,863	\$(763,610)	\$311,508,540	\$(19,907,198)	\$291,601,342
MWPAT	12,860,002	(542,626)	—	—	12,317,376	(2,899,271)	9,418,105
Economic Development	7,951,604	(728,734)	23,429	(53,279)	7,193,020	—	7,193,020
Parking	25,554	(25,554)	—	—	—	—	—
State Urban Development							
----Relocation	32,793,983	(4,092,832)	97,860	(217,028)	28,581,983	—	—
Schools	141,077,891	(8,951,878)	1,030,098	(185,464)	132,970,647	(79,782,388)	28,581,983
Public Buildings	199,355,145	(14,351,555)	1,392,076	(448,837)	185,946,829	—	53,188,259
Public Works	91,282,667	(11,187,242)	88,674	(356,782)	79,827,317	—	185,946,829
Cemeteries	<u>275,275</u>	<u>(234,656)</u>	<u>—</u>	<u>—</u>	<u>40,619</u>	<u>—</u>	<u>40,619</u>
Totals	<u>\$841,782,376</u>	<u>\$(85,226,045)</u>	<u>\$3,855,000</u>	<u>\$(2,025,000)</u>	<u>\$758,386,331</u>	<u>\$(102,588,857)</u>	<u>\$655,797,474</u>

(1) The City elected to use the bond premium generated by the November 15, 2002 refunding bond issue. to pay down outstanding principal.

(2) Includes revenues related to or derived from facilities on account of which the debt was incurred. Such revenues include: (i) the Boston Public Health Commission on account of general obligation debt attributable to projects undertaken on behalf of the former Department of Health and Hospitals; (ii) state grants for school construction assistance pursuant to the Commonwealth's school construction aid program; (iii) cemetery receipts which are currently collected in the General Fund and (iv) debt service subsidies on City debt issued to the Massachusetts Water Pollution Abatement Trust.

Source: City of Boston Auditing Department.

*Certain Debt Ratios*

The following table sets forth information as of February 1, 2003 with respect to the approximate ratio of the City's long-term general obligation debt to certain economic factors:

**Debt Ratios**  
**As of February 1, 2003**

	<u>Amount</u>	<u>Per Capita<sup>(1)</sup></u>	<u>Ratio to Assessed Property Value<sup>(2)</sup></u>	<u>Debt Per Capita as a % of Personal Income Per Capita<sup>(3)</sup></u>
Gross General Obligation Debt	\$758,386,331	\$1,287.27	1.40%	3.10%
Net General Obligation Debt	655,797,474	1,113.14	1.21	2.68

(1) U.S. Census Bureau as of April 2001—Boston's Population equals 589,141.

(2) Assessed Property Value of \$57.53 billion as of January 1, 2002. State law requires that property be assessed at fair cash value. See "City Revenues—Property Taxes—Revaluation."

(3) U.S. Department of Commerce, Bureau of Economic Analysis, September 2002, Revised Series-Suffolk County's 2000 Per Capita Personal Income = \$41,498.

Source: City of Boston Auditing Department and Boston Redevelopment Authority.

### *Three-Year Debt Summary*

The following table sets forth a three-year summary of the status of the City's outstanding general obligation debt at the end of each respective fiscal year and certain information concerning the City's debt service requirements for such fiscal periods.

#### **Year-End Debt Summary, Fiscal 2000 - 2002 (Budgetary Basis)** **(\$ in thousands)**

	<u>2000</u>	<u>2001</u>	<u>2002</u>
Outstanding General Obligation Debt <sup>(1)</sup> .....	\$ 777,269	\$823,795	\$841,782
Authorized But Unissued General Obligation Debt.....	<u>782,961</u>	<u>735,150</u>	<u>591,518</u>
Debt Service.....	\$101,617	\$ 113,585	\$120,745
Debt Service as a % of Total General			
Fund Revenues, Transfers and			
Other Available Funds.....	6.3%	6.6%	6.8%
Debt Service as a % of Total			
Expenditures and Encumbrances.....	6.3%	6.6%	6.8%
Debt Service as a % of Total Net			
Tax Levy .....	12.3%	13.0%	12.9%
Bonds Issued .....	<u>\$120,000</u>	<u>\$172,025</u>	<u>\$100,000</u>

(1) In anticipation of its issuance of bonds, the City issued \$25,000,000 City of Boston School Project Bond Anticipation Notes, Series A, in February 2001, which is not included in these amounts.

Source: City of Boston Auditing Department.

### **Special Obligation Debt**

In addition to general obligation indebtedness, the Bond Procedure Act of 1983 and various other special acts authorize the City to incur indebtedness, which is secured by and payable solely from certain revenues of the City which are pledged for the payment of such indebtedness or which are subject to annual appropriation by the City for such purpose. The only special obligation indebtedness of the City outstanding as of July 1, 2002 was \$140,630,000 aggregate principal amount of the City's Revenue Refunding Bonds, Boston City Hospital (FHA Insured Mortgage), Series B (the "1993 BCH Bonds") and \$116,890,000 aggregate principal amount of the City's Convention Center Loan, Act of 1997, Special Obligation Bonds, Series A (the "Convention Center Bonds"). The 1993 BCH Bonds were refunded by the City on August 13, 2002 upon the issuance of the City's \$127,800,000 Special Obligation Refunding Bonds, Boston City Hospital Issue (the "2002 BCH Refunding Bonds").

The 1993 BCH Bonds were issued in 1993 to refund bonds originally issued by the City in 1990 to finance a major construction and renovation program for the City's acute care hospital then known as Boston City Hospital ("BCH"). The 1993 BCH Bonds were secured in part by a mortgage on the BCH campus, which was insured by the United States of America acting by and through the Federal Housing Administration ("FHA"), and were payable from amounts paid on a mortgage note issued by the City to the trustee for the owners of the 1993 BCH Bonds.

At the date of issue of the 1993 BCH Bonds, BCH was owned by the City and under the control of the City's Department of Health and Hospitals. However, on July 1, 1996, the operations of BCH and Boston University Medical Center Hospital ("BUMCH") were consolidated into Boston Medical Center, which is owned and operated by the Boston Medical Center Corporation ("BMCC"), a Massachusetts non-profit corporation. Simultaneously with the consolidation of BCH and BUMCH, all other public health operations of the City's Department of Health and Hospitals were transferred to the Boston Public Health Commission. In addition, title to the BCH campus was transferred to the Commission and the Commission became the mortgagor on the FHA insured mortgage and assumed the City's mortgage note securing the 1993 BCH Bonds. At the same time, the BCH campus was leased to BMCC for an initial term of 50 years and BMCC agreed to pay rent to the Commission for so long as the FHA insured mortgage note was outstanding in an amount, among other sums, equal to the amounts payable by the Commission on the FHA insured mortgage note securing the 1993 BCH Bonds.

Upon issuance of the 2002 BCH Refunding Bonds, the 1993 BCH Bonds were defeased and the FHA insured mortgage on the BCH campus discharged and the Commission's mortgage note cancelled. In

consideration of the discharge of the mortgage and cancellation of the note, upon delivery of the 2002 BCH Refunding Bonds the Commission issued a new promissory note to the City (the "2002 Note") which is payable as to principal and interest in amounts and on dates sufficient, with other moneys held or to be received under the trust agreement securing the 2002 BCH Refunding Bonds (the "2002 Trust Indenture"), to pay the principal of, and interest on, the 2002 BCH Refunding Bonds as the same becomes due. The 2002 Note is not secured by a mortgage on or other interest in the BCH campus. The 2002 Note is a special obligation of the Commission secured by an assignment and pledge of rents payable by BMCC to the Commission under the lease of the BCH campus and all other amounts held under a Note Payment Trust Agreement among the City, the Commission, BMCC and the Trustee for the owners of the 2002 BCH Refunding Bonds, including, upon any failure of BMCC to pay all or any part of such rent, the proceeds of certain assistance grants payable by the City to BMCC for so long as the 2002 Note is outstanding. The payment of assistance grants to BMCC is subject to annual appropriation by the City and the payment of rent by BMCC is contingent upon the appropriation and payment of such assistance grants. The rent payments and the assistance grants are each at least equal, in amount and terms of payments, to the principal and interest payable on the 2002 BCH Refunding Bonds.

The 2002 BCH Refunding Bonds are special obligations of the City payable from, and secured solely by a pledge and assignment of the Note Payment Trust Agreement, the 2002 Note and all payments of principal and interest payable thereon and all moneys and securities and investment income thereon in all funds established under the 2002 Trust Indenture. In the 2002 Trust Indenture, the City has also covenanted and agreed, subject to appropriation, to meet any deficiency in the amounts held thereunder for the payment of the 2002 BCH Refunding Bonds. The 2002 BCH Refunding Bonds do not constitute general obligations of the City and the full faith and credit of the City are not pledged to the payment of the principal of and interest on the 2002 BCH Refunding Bonds. The 2002 BCH Refunding Bonds are not a debt or other obligation of the Commission or BMCC.

The Convention Center Bonds were issued by the City in April, 2002 pursuant to Chapter 152 of the Acts of 1997, as amended (the "Convention Center Act"), to permanently finance certain costs incurred by the City in connection with the development of the Boston Convention and Exhibition Center (the "BCEC Project"), a 1.6 million square foot convention and exhibition facility currently under construction on a 60-acre site in South Boston. The BCEC Project is a joint development of the City, acting through the Boston Redevelopment Authority (the "BRA"), and the Commonwealth, acting through the Massachusetts Convention Center Authority (the "MCCA"). Under the Convention Center Act, the BRA is responsible for the acquisition of the site for the BCEC Project, which will be conveyed to the MCCA, for the demolition of the existing structures on the site and remediation of environmental hazards thereon and for the preparation of the site for construction of the BCEC Project, which is expected to be completed in the spring of 2004. Upon completion, the MCCA shall be responsible for the operation of the facility.

As provided in the Convention Center Act, the City is obligated to reimburse the BRA for the first \$157.8 million of costs incurred by the BRA to acquire and prepare the BCEC Project site for construction. Site acquisition and preparation costs incurred by the BRA in excess of \$157.8 million are to be either assumed by the Commonwealth or, under certain circumstances, shared equally by the City and the Commonwealth. The Commonwealth or the MCCA is solely responsible for all costs of design, construction and operation of the BCEC Project. To date the City has reimbursed the BRA for \$157.8 million of site costs which were temporarily funded through the issuance by the City of its \$130,000,000 Convention Center Loan, Act of 1997, Bond Anticipation Notes, Series A, and \$27,800,000 Convention Center Loan, Act of 1997, Bond Anticipation Notes, Series B (collectively, the "Convention Center Notes"), which matured on May 1, 2002. Proceeds of the Convention Center Bonds were applied to retire approximately \$117 million of the Convention Center Notes at maturity. The remaining principal of the Convention Center Notes, and all interest due thereon, was funded from special revenues accumulated by the City since enactment of the Convention Center Act.

The Convention Center Bonds were issued under and are secured by a Trust Agreement dated as of April 15, 2002 between the City and a corporate trustee (the "Convention Center Trust Agreement"). The Convention Center Bonds and any additional bonds and refunding bonds which may be hereafter issued and outstanding under the Convention Center Trust Agreement are special obligations of the City payable from, and secured solely by a pledge of, certain "Pledged Receipts" identified in the Convention Center Trust Agreement and all moneys, securities and credit facilities in all funds and accounts established thereunder. The Pledged Receipts pledged by the Convention Center Trust Agreement as security for the

Convention Center Bonds include all amounts received by the City from the 4% local option room occupancy excise imposed in Boston, from a portion of the surcharge imposed by the Commonwealth on vehicular rental transaction contracts in Boston and from the sale of certain hackney (taxi) medallions in the City. See “City Revenues – Excise Revenues” and “Departmental Revenues.” The Convention Center Bonds do not constitute general obligations of the City and the full faith and credit of the City are not pledged to the payment of the principal of and interest on the Convention Center Bonds.

The City does not expect that its revenue base that was historically available to fund annual operating expenditures will be adversely affected by the development of the BCEC Project and the issuance of the Convention Center Bonds. The Convention Center Act and the Convention Center Trust Agreement authorize the City to annually transfer to the City’s General Fund all room occupancy excise receipts and other Pledged Receipts that are not required for the payment of maturing interest on and principal of the Convention Center Bonds. The City anticipates that the room occupancy excise receipts that are attributable to rooms in hotels, motels, and other lodging establishments that were first opened for business after July 1, 1997 (a measuring date provided in the Convention Center Act), together with the other Pledged Receipts held under the Convention Center Trust Agreement, will be sufficient to pay the debt service on the Convention Center Bonds and to fund any other costs of the BCEC Project that are payable by the City. Accordingly, the City anticipates that excise tax receipts attributable to rooms in hotels, motels, and other lodging establishments that were opened for business before July 1, 1997 will be available for transfer to the General Fund.

In addition to the 2002 BCH Refunding Bonds and the Convention Center Bonds, legislation enacted by the state legislature in 2000 authorizes the City to issue special obligation debt to pay a portion of the costs of acquisition and preparation of a site for a proposed replacement facility for Fenway Park which would be secured by and payable from certain excises and special revenues related to the operation of the new ballpark. See “City Indebtedness – Capital Planning and Borrowing Program – Fenway Park Project.”

#### **Debt of Agencies Related to the City**

In addition to general obligation and special obligation indebtedness of the City, the City and certain agencies related to the City are authorized to issue debt which is solely an obligation of the agency or which, although issued by the City, are payable solely from revenues derived from projects financed by such debt. Except as described below, such obligations do not constitute a debt of the City.

##### *Boston Water and Sewer Commission*

The Boston Water and Sewer Commission (the “Commission”) is an independent body politic and corporate and a political subdivision of the Commonwealth created in July 1977. The Commission, among its other powers, is authorized to operate and maintain the water and sewer systems of the City, construct improvements to the systems, collect user charges for its services, and finance its activities and its borrowing through its revenues. The City is not obligated on debt issued by the Commission. The Commission’s user charges, as required by statute, are designed to produce revenues to the Commission sufficient to pay all of its current operating expenses. These user charges are anticipated to increase moderately. The City’s property tax base is not used to subsidize water and sewer services. Water and sewer charges outstanding from certain of the Commission’s prior fiscal years have been committed to the City for collection. The City uses its lien and foreclosure powers to collect those overdue water and sewer charges for those years on the Commission’s behalf.

##### *Economic Development and Industrial Corporation of Boston*

The Economic Development and Industrial Corporation of Boston (“EDIC”) is a body politic and corporate and an instrumentality of the Commonwealth with a board of five members, also appointed as the members of the Boston Redevelopment Authority (“BRA”). EDIC has a variety of powers to assist industrial development projects in the City including the power to issue special obligation revenue bonds to finance economic development projects in the City, which are solely the obligation of EDIC or the owner or lessee of the financed project. The City is also authorized to appropriate or borrow monies in aid of EDIC development projects within certain urban renewal debt limitations. The City has issued approximately \$19.7 million in general obligation debt for EDIC purposes, of which approximately \$7.2 million was outstanding as of February 1, 2003. The Fenway Park Site Act also authorizes EDIC to acquire

and prepare a site for a replacement facility for Fenway Park, the home ballpark of the Boston Red Sox, and to develop and finance a parking garage adjacent to the new ballpark. The City is authorized and directed by the act to fund up to \$140 million of costs incurred by EDIC to acquire and prepare the site. Subsequent to the passage of the Fenway Park Site Act, the Boston Red Sox were sold. To date no action has been taken by the new team ownership, the EDIC, or the City to undertake or finance the construction of either the ballpark site or the parking garage. See “City Indebtedness—Capital Planning and Borrowing Program—Fenway Park Project” below.

#### *Boston Redevelopment Authority*

The BRA is a public body politic and corporate constituting the City’s redevelopment authority. It acts as the City’s planning board and exercises certain powers of the state Department of Housing and Community Development. The BRA board consists of four members appointed by the Mayor, subject to confirmation by the City Council, and one appointed by the state Department of Housing and Community Development. The staff includes architects, economists, engineers, lawyers and urban planners, as well as management personnel and administrative support. The BRA provides the planning support for major construction, development and redevelopment activity in the City. Although the BRA is authorized to issue revenue bonds and notes which would not constitute indebtedness of the City, BRA projects have traditionally been financed through a combination of federal and state grants, the proceeds of general obligation bonds issued by the City and revenues from the lease or sale of land.

#### *Boston Public Health Commission*

The Boston Public Health Commission is a body politic and corporate and a political subdivision of the Commonwealth created in June 1996 as the successor to the City’s Department of Health and Hospitals. See “The City—Principal Government Services—Public Health”. The Commission is responsible for the implementation of public health programs in the City and serves as the board of health of the City. In addition to its other powers, the Commission is authorized by its enabling act, with the approval of the City Council and the Mayor, to borrow money for any of its corporate purposes from the City or from the Massachusetts Health and Educational Facilities Authority. Debt of the Commission is not a debt or other obligation of the City. Other than the 2002 Note described below, no debt of the Commission is currently outstanding.

Upon the consolidation of Boston City Hospital and Boston University Medical Center Hospital on July 1, 1996, title to the BCH campus was transferred to the Commission subject to the terms of a lease of the campus to the Boston Medical Center Corporation and a mortgage securing the City’s then outstanding 1993 BCH Bonds. The mortgage was originally granted by the City in 1990 in connection with the financing of a major construction and renovation program for BCH and was assumed by the Commission in 1996.

The 1993 BCH Bonds were refunded on August 13, 2002 upon the issuance of the City’s Special Obligation Refunding Bonds, Boston City Hospital Issue (the “2002 BCH Refunding Bonds”). Pursuant to agreements between the City, the Commission, BMCC and a trustee for the benefit of the registered owners of the 2002 BCH Refunding Bonds, the Commission has agreed to apply rents received from BMCC to the payment of a promissory note (the “2002 Note”) issued by the Commission to the City and assigned by the City as security for the 2002 BCH Refunding Bonds. Payments made by the Commission on the 2002 Note are applied by the City to pay the principal of and interest on the City’s 2002 BCH Refunding Bonds. See “City Indebtedness-Special Obligation Debt.”

The Commission is also obligated to reimburse the City for debt service paid on all outstanding general obligation bonds of the City issued for public health and hospital purposes. Such bonds were outstanding on July 1, 2002 in the aggregate principal amount of \$19.0 million. The Commission has required, and can be expected to continue to require, substantial financial support from the City to maintain its public health mission and programs, including satisfaction of its obligations described above.

#### *Other Agencies and Corporations*

Two other public bodies are empowered, either by themselves or through the City, to issue special obligation revenue bonds. The BHA is responsible for the construction, financing and operation of residential housing for low-income persons. While the City provides certain municipal services to BHA



developments, and capital expenditures for City infrastructure related to those developments, the City is not directly or indirectly liable for operating or debt service expenses of the BHA. The City acting by and through the Boston Industrial Development Financing Authority, is authorized to issue revenue bonds to finance the construction of industrial, commercial and pollution-control facilities. The City has also traditionally provided financial assistance to a number of nonprofit corporations organized to provide and conduct civic and charitable functions for residents and visitors to the City and to stimulate the economic development of the City.

### Debt Service Requirements

The following table sets forth the City's debt service requirements for general obligation debt for each year from June 30, 1998 through 2002. The debt service table shows the gross principal amount of general obligation debt of the City and the revenues related to or derived from facilities on account of which the debt was incurred. Such revenues include (i) payments from the Boston Water and Sewer Commission and, beginning in fiscal 1998, from the Boston Public Health Commission, on account of debt service on outstanding City water and sewer bonds and certain general obligation bonds issued for hospital purposes (see "City Indebtedness—Debt of Agencies Related to the City" above), (ii) state grants for school construction as described below and (iii) rentals received by the City from leased parking facilities as described below.

#### Debt Service Requirements—Fiscal 1998-2002

	Fiscal Year Ended June 30, 1998	Fiscal Year Ended June 30, 1999	Fiscal Year Ended June 30, 2000	Fiscal Year Ended June 30, 2001	Fiscal Year Ended June 30, 2002
Gross Debt Service Requirements					
—Bonded Debt:					
Principal .....	\$57,590,000	\$63,500,000	\$67,140,000	\$75,594,255	\$82,012,626
Interest .....	31,875,679	35,208,723	34,476,566	37,990,468	38,732,580
Total.....	<u>\$89,465,679</u>	<u>\$98,708,723</u>	<u>\$101,616,566</u>	<u>\$113,584,723</u>	<u>\$120,745,206</u>
Less Revenues Deemed Available					
From Related Sources:					
Parking Rentals .....	1,082,121	838,107	1,677,998	2,222,017	1,988,112
School Construction Assistance .....	11,229,970	13,329,890	17,088,236	20,199,100	17,128,745
Boston Public Health					
Commission Payments.....	6,366,234	5,895,220	5,411,913	5,113,290	4,813,385
Water and Sewer Payments .....	58,625	55,175	—	—	—
MWPAT Loan Subsidy Amounts.....	—	—	126	625	611
Fund for Parks & Recreation .....	—	—	—	—	86,471
Cemetery Funds .....	35,289	35,213	35,189	35,147	—
Total Net Debt Service					
Requirements .....	<u>\$70,693,440</u>	<u>\$78,555,118</u>	<u>\$77,403,103</u>	<u>\$86,014,453</u>	<u>\$96,727,882</u>

Source: City of Boston Auditing Department.

The related revenues shown in the foregoing Debt Statement and table of Debt Service Requirements are not pledged to the payment of specific indebtedness. However, such revenues may substantially reduce the amount of tax or other revenues of the City that must be raised to pay debt service on the related debt.

### Major Contractual Obligations

In addition to its debt obligations, the City has substantial contractual obligations. Included in this category are the City's obligation for pension benefit payments to its contributory retirement system for City employees which is included in the annual tax levy (see "Retirement Systems"); agreements for the provision of sanitation, solid waste collection and disposal services (see "The City—Principal Government Services—Other Services"); agreements with BMCC for the provision of operating assistance and capital grants. (see "City Indebtedness—Special Obligation Debt" and "Debt of Agencies Related to the City—Boston Public Health Commission" above); and certain long-term and short-term lease purchase obligations incurred by the City (see "City Indebtedness—Major Contractual Obligations—Equipment Leasing Programs" below).

### *Equipment Leasing Programs*

The City has executed several equipment lease agreements in order to finance the acquisition of departmental equipment. As of February 1, 2003 the amount outstanding under the lease agreements equaled \$23.0 million. Lease payments are subject to annual appropriation, and are not included in the City's debt limit.

### **Short-Term Borrowings**

Although the City is authorized to borrow for operating purposes through the issuance of short-term notes in anticipation of revenue receipts, it has not done so in several years. In addition, the City is authorized to issue short-term debt obligations in anticipation of the issuance of long-term bonds.

In February 2001, the City issued its \$25,000,000 City of Boston Bond Anticipation Notes, 2001 Series A (the "2001 Series A Notes"), to fund a portion of the costs incurred by the City for the construction of two new middle schools and one new elementary school. On the date of delivery of the Bonds the City will refinance the 2001 Series A Notes on a long-term basis. In February 2002, the City issued its \$62,000,000 City of Boston Bond Anticipation Notes, 2002 Series A, and on the date of delivery of the Bonds the City expects to issue its \$34,000,000 City of Boston Bond Anticipation Notes, 2003 Series B, both to fund additional costs relating to the same purposes financed by the 2001 Series A Notes.

### **Capital Planning and Borrowing Program**

#### *Capital Planning Process*

The capital planning process is organized to coincide with the annual budget cycle. It begins when City departments submit capital requests, and concludes when the City publishes an updated version of its five-year capital plan. Capital appropriations are requested of the City Council each year for the cost of projects included in the updated capital plan. This process allows for a continuing reassessment of capital needs and projections. On April 10, 2002 the Mayor submitted his fiscal 2003 budget to the City Council, which included approximately \$65.9 million in new authorizations to support the fiscal 2003 capital plan; all authorizations were approved by the City Council in July, 2002. In addition to these authorizations, the Mayor submitted an authorization to the City Council in August, 2002 for the 1010 Massachusetts Avenue project totaling \$33.5 million, which was approved by the City Council in September, 2002.

The City awards construction contracts and incurs capital outlay costs based upon appropriations to be funded from bond proceeds and grant receipts. In circumstances where project expenditures occur prior to the receipt of bond proceeds or grant reimbursements, the City pays such costs from available funds.

#### *Capital Funding Plan*

The City funds its capital plan primarily through the issuance of general obligation bonds. The size of the City's future bond issues will be consistent with the City's conservative financial management policies regarding its level of debt and debt service. The timing and size of the capital plan will be actively managed within these constraints.

#### *Current Capital Investment Plans*

The City's fiscal 2003 capital plan released on April 10, 2002 proposes new long-term investments over the next 5-7 years as well as several studies to lay the groundwork for future growth. In all, \$1.4 billion from City and non-City sources are proposed to be spent on capital projects. These expenditures will be used for improvements to schools, libraries, parks and recreation, roads and bridges and in support of the BCEC. In view of the proven economic and social benefits of consistent, long-range capital planning, the City remains committed to moving forward with its capital program.

The fiscal 2003 capital plan includes projects to improve the physical condition of the City's schools. In addition to ongoing roof replacements and heating system upgrades, the City began construction on three new schools and completed major renovations at one high school. Finally, the 2003 capital plan includes a continuing technology upgrade throughout the entire school system.

The maintenance of the City's roadways and sidewalks is a significant part of the capital plan. Each year, the Public Works Department resurfaces 17 to 20 miles and reconstructs 10 miles of roads. In

addition, 20 miles of sidewalks are reconstructed and approximately 400,000 square feet are repaired and 700 new streetlights are scheduled to be installed to improve visibility and public safety.

Boston's public libraries have also benefited from the capital planning process. Construction was completed on the City's twenty-sixth neighborhood branch library. The historic McKim Building at the central library continues to undergo major restorations. The City recently completed major renovations in two community centers including refurbished gyms, classrooms and administration space.

Since its inception, the capital plan has comprehensively examined the capital needs of the City and has emphasized long-term planning and financial management. This planning process has enabled the City to alter the pattern of decades of previous under investment and to respond to emerging program goals of its departments.

For a description of the City's expenditures in support of the BCEC see "City Indebtedness – Special Obligation Debt" above.

#### *Fenway Park Project*

During August 2000, the Massachusetts legislature passed the Fenway Park Site Act in support of the building of a new professional baseball stadium adjacent to the current location of Fenway Park. The state appropriated \$100.0 million for infrastructure improvements outside of the new stadium (streets, mass transit, utilities, landscape). The law also authorizes the Economic Development and Industrial Corporation of Boston ("EDIC"), by itself or by contract with the BRA, to acquire and prepare a site for the new ballpark and to develop and finance a parking garage adjacent to the new ballpark. The City is required to reimburse EDIC for up to \$140.0 million for stadium site acquisition and preparation costs. The law authorizes the City to issue up to \$140.0 million of general obligation or special obligation bonds for such purpose. The Boston Red Sox are to pay for stadium construction and for stadium site acquisition and preparation costs in excess of \$140.0 million. The new stadium site is to be leased by EDIC to the Boston Red Sox for an annual rental payment equal to the City's debt service, but in no event more than \$12.1 million per year. Certain special revenues and excises identified in the Fenway Park Site Act, primarily from business transactions generated from activity in the new ballpark, are to be collected and credited against the rent to be paid by the Boston Red Sox and may be pledged by the City to secure indebtedness incurred by the City under the act. Prior to EDIC, the City, or the Commonwealth undertaking or financing the infrastructure improvements or the projects a number of pre-conditions must be met, including approval of a development plan by the City Council and the Mayor, and approval by the City Council and authorization by the Mayor of the City's bonds for site costs. To date no action has been taken by EDIC or the City to undertake or finance either the ballpark site project or the parking garage.

### **TAX EXEMPTION**

The opinion of Palmer & Dodge LLP, Bond Counsel, will state that under existing law the interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; interest on the Bonds is taken into account, however, in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes).

The Internal Revenue Code of 1986 (the "Code") establishes certain requirements that must be continuously satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to remain excluded from gross income for federal income tax purposes. These requirements include restrictions on the use, expenditure and investment of bond proceeds and also include the payment of rebates, or penalties in lieu of rebates, to the United States. Failure to comply with these requirements may cause inclusion of interest on the Bonds in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The City will covenant to take all lawful action necessary to comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest on the Bonds be or continue to be excluded from gross income for federal income tax purposes.

In addition to other requirements imposed by the Code, Section 148(f) of the Code requires an issuer of tax-exempt bonds to rebate to the United States certain excess earnings from investment of bond proceeds and other amounts, subject to certain exceptions. One of the exceptions applies when the gross proceeds of a bond issue are expended for the governmental purpose within certain specified periods after

the date of issuance of the bonds. The City expects to expend all of the gross proceeds of the Bonds within the appropriate periods and, accordingly, expects the Bonds to qualify for this exception from the rebate requirement of the Code.

It should also be noted that the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds or, in the case of a financial institution, for that portion of the holder's interest expense allocated to interest on the Bonds. Interest on the Bonds earned by insurance companies or allocable to certain dividends received by such companies may increase taxable income of those companies as calculated under Subchapter L of the Code. In addition, interest on the Bonds earned by certain corporations could be subject to the foreign branch profits tax imposed by the Code, and may be included in passive investment income subject to federal income taxation under provisions of the Code applicable to certain S corporations. The Code also requires recipients of certain social security and certain railroad retirement benefits to take into account receipts or accruals of interest on the Bonds in determining the portion of such benefits that are included in gross income, and receipt of investment income, including interest on the Bonds, may disqualify the recipient thereof from obtaining the earned income credit under Section 32(i) of the Code.

The opinion of Bond Counsel will also state that, under existing law, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel has not opined as to other Massachusetts tax consequences arising with respect to the Bonds. Prospective purchasers should be aware, however, that the Bonds will be included in the measure of Massachusetts estate and inheritance taxes, and the Bonds and the interest thereon will be included in the measure of Massachusetts corporate excise and franchise taxes.

No assurance can be given that future legislation will not have adverse tax consequences for owners of the Bonds.

On the date of delivery of the Bonds, the original purchasers will be furnished with an opinion of Bond Counsel substantially in the form attached hereto as Appendix C.

### **CONTINUING DISCLOSURE**

In order to assist the Underwriters in complying with Rule 15c2-12 promulgated by the Securities and Exchange Commission (the "Rule"), the City will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the City by not later than 365 days after the end of each fiscal year (the "Annual Report"), and to provide notices of occurrence of certain enumerated events, if material. The covenants will be contained in a Continuing Disclosure Certificate, the proposed form of which is provided in Appendix D. The Certificate will be executed by the signers of the Bonds, and incorporated by reference in the Bonds. The City has executed previous undertakings to provide annual reports or notices of material events in accordance with the Rule, and has never failed to comply in all material respects with such undertaking.

### **COMPETITIVE SALE OF BONDS**

The Bonds were offered for sale by the City on February 12, 2003 in accordance with the Official Notice of Sale dated February 5, 2003. Goldman, Sachs & Co. ("the "Underwriter") was the successful bidder for the Bonds. Information provided by the Underwriter regarding the interest rates and reoffering yields of the Bonds is set forth on the cover of this Official Statement. The Bonds are being purchased from the City by the Underwriter at an aggregate price of \$169,338,174, plus accrued interest, reflecting the principal amount of \$162,015,000, plus original issue premium of \$8,119,008, less the Underwriter's discount of \$795,834. The Underwriter may offer to sell the Bonds to certain dealers and others at prices other than the initial public offering prices, and the public offering prices may be changed from time to time by the Underwriter.

### **LITIGATION**

No litigation is pending or, to the knowledge of the City's Corporation Counsel, threatened (a) seeking to restrain or enjoin the issuance or delivery of the Bonds, (b) contesting or affecting any authority for or the validity of the Bonds, (c) contesting the power of the City to issue the Bonds or the power of the City to offer and sell the Bonds to the Underwriters, (d) affecting the power of the City to levy and collect taxes to pay the Bonds or (e) contesting the corporate existence or boundaries of the City.

There are pending in courts within the Commonwealth various suits in which the City is a defendant. In the opinion of the City's Corporation Counsel, no litigation is pending, or to her knowledge threatened, which is likely to result, either individually or in the aggregate, in final judgments against the City which would affect materially its ability to pay the principal of and interest on the Bonds when due or which would affect materially its financial condition.

#### **CREDIT RATINGS**

Fitch ("Fitch"), One State Street Plaza, New York, New York, Moody's Investors Service Inc., ("Moody's"), 99 Church Street, New York, New York, and Standard & Poor's Rating Services, a division of the McGraw-Hill companies ("Standard & Poor's"), 55 Water Street, New York, New York, have assigned the Bonds the ratings listed on the cover hereof with the understanding that upon delivery of the Bonds, the Bond insurance Policy will be issued by the Bond Insurer. In addition, Fitch, Moody's and Standard & Poor's have assigned ratings of AA-, Aa2, and AA-, respectively, to the Bonds without regard to the Bond Insurance Policy. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agency concerned, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of any such ratings may have an adverse effect on the market price of the Bonds.

#### **AUDITORS**

The financial statements of the City of Boston included in Appendix A to this Official Statement have been audited by KPMG LLP, independent certified public accountants, to the extent and for the period indicated in their report thereon. Such financial statements have been included in this Official Statement in reliance upon the report of KPMG LLP and other auditors.

#### **FINANCIAL ADVISOR**

Public Financial Management, Inc. ("PFM") has served as financial advisor to the City for the issuance of the Bonds. PFM is not obligated to undertake, and has not undertaken, either to make an independent verification of or to assume responsibility for, the accuracy, completeness, or fairness of the information contained in this Official Statement and the appendices hereto. PFM is an independent financial advisory firm and is not engaged in the business of underwriting, trading, or distributing securities or other public securities.

#### **LEGAL MATTERS**

All legal matters incidental to the authorization and issuance of the Bonds are subject to the approval of Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel to the City. Reference should be made to the form of opinion set forth in Appendix C for the matters to be covered therein. In addition, Corporation Counsel of the City will certify as to certain matters, including the accuracy of the statements contained herein under the caption "Litigation."

CITY OF BOSTON, MASSACHUSETTS

By: /s/ Vivian Leo  
*Temporary Collector-Treasurer*

Dated: February 12, 2003

# **Annual Financial Statements of the City of Boston, Massachusetts**

For the Year Ended June 30, 2002



With Independent Auditors' Report Thereon



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## Independent Auditors' Report

The Honorable Mayor and City Council  
City of Boston, Massachusetts:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boston, Massachusetts, as of and for the year ended June 30, 2002, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Boston's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain entities, which represent 3% and 11% of the assets and revenues, respectively, of the aggregate remaining fund information and 29% and 22% of the assets and revenues, respectively, of the discretely presented component units. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion on the financial statements, insofar as it relates to the aggregate remaining fund information and the discretely presented component units and their effects on the governmental and fiduciary activities, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provides a reasonable basis for our opinions.

In our opinion, based on our audit and reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boston, Massachusetts, as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 3, the City, in fiscal 2002, has implemented Governmental Accounting Standards Board (GASB) Statements No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments – Omnibus*, and No. 38, *Certain Financial*







*Statement Note Disclosures, and GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.*

Management's Discussion and Analysis on pages A - 3 through A - 12 and the schedules of funding progress and employers' contributions on page A - 55 are not required parts of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a separate report dated November 22, 2002 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

November 22, 2002

## CITY OF BOSTON, MASSACHUSETTS

### Required Supplementary Information Management's Discussion and Analysis

The City of Boston provides this Management's Discussion and Analysis to provide additional information to the readers of the City's Basic Financial Statements. This narrative overview and analysis of the financial activities of the City of Boston is for the fiscal year ended June 30, 2002. Readers are encouraged to consider this information in conjunction with the additional information that is furnished in the City's Comprehensive Annual Financial Report (CAFR).

Because the City of Boston is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City of Boston's financial statements. The City's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information regarding historical pension information. These components are described below:

#### Basic Financial Statements

The financial statements include two types of financial statements that present different views of the City – the ***Government-Wide Financial Statements*** and the ***Fund Financial Statements***. These financial statements also include the *Notes to the Financial Statements* that explain some of the information in the financial statements and provide more detail.

#### Government-Wide Financial Statements

The *government-wide financial statements* provide a broad view of the City's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the City's financial position, which assists in assessing the City's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year even if cash involved has not been received or paid. The government-wide financial statements include two statements:

The *statement of net assets* presents all of the government's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the City.

See independent auditor's report.

## CITY OF BOSTON, MASSACHUSETTS

### Required Supplementary Information Management's Discussion and Analysis

Both of the above financial statements have separate sections for the three different types of city programs or activities. These three types of activities are:

*Governmental Activities* – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal and state grants). Most services normally associated with city government fall into this category, including general government, human services, public safety, public works, property and development, parks and recreation, library, schools, county, public health programs, judgment and claims, retirement costs, state and district assessments, debt service, and other employee benefits.

*Business-Type Activities* – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the City include the operations of the City of Boston Convention Center Bond Fund and the Hospital Bond Fund.

*Discretely Presented Component Units* – These are operations for which the City has financial accountability but they have certain independent qualities as well. For the most part, these entities operate similar to private-sector businesses and the business-type activities described above.

The City's four discretely presented major component units are:

- Boston Public Health Commission
- Boston Redevelopment Authority
- Economic Development Industrial Corporation
- Trustees of the Boston Public Library

Complete financial statements of the individual component units can be obtained from their respective administrative offices. Additional information about the City's component units are presented in the notes to the financial statements.

The government-wide financial statements can be found immediately following this discussion and analysis.

#### ***Fund Financial Statements***

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The *fund financial statements* focus on individual parts of the city government, reporting the City's operations in more detail than the government-wide statements. All of the funds of the City can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently. The three categories of funds are:

*1. Governmental Fund Financial Statements* – Most of the basic services provided by the City are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This

See independent auditor's report.

## CITY OF BOSTON, MASSACHUSETTS

### Required Supplementary Information Management's Discussion and Analysis

approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this approach, revenues are recorded when cash is received or when susceptible to accrual. Expenditures are recorded when liabilities are incurred and due. These statements provide a detailed short-term view of the City's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the City.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

The City has four governmental funds. Each fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The City's three major governmental funds are – the General Fund, the Special Revenue Fund, and the Capital Projects Fund. All non-major governmental funds are combined in the "Other Governmental Funds" columns on these statements. The governmental funds financial statements can be found immediately following the government-wide statements.

Of the City's four governmental funds, the General Fund is the only fund for which a budget is legally adopted. The ***Budgetary Statement or Statement of Revenues and Expenditures – Budgetary Basis*** is presented on page A - 19. This Statement provides a comparison of the original and final budget and the actual expenditures for the current and prior year.

In accordance with state law and regulations, the City's legally adopted general fund budget is prepared on a "budgetary" basis instead of generally accepted accounting principles (GAAP). Among the key differences between these two sets of accounting principles are that "budgetary" records property tax as it is levied, while GAAP records it as it becomes susceptible to accrual, "budgetary" records certain activities and transactions in the general fund that GAAP records in separate funds, and "budgetary" records as an expenditure any amount raised to cover for a prior year deficit, and as a revenue any available funds raised from prior year surpluses, while GAAP ignores these impacts from prior years. The difference in accounting principles inevitably leads to varying results in excess or deficiency of revenues over expenditures. Additional information and a reconciliation of "budgetary" to GAAP statements is provided in Note 4 of the financial statements.

***2. Proprietary Funds Financial Statements*** – These funds are used to show activities that operate more like those of commercial enterprises. Because these funds charge fees for services provided to outside customers including local governments, they are known as enterprise funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. No reconciliation is needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements.

The basic proprietary funds financial statements can be found immediately following the governmental fund financial statements.

See independent auditor's report.

## **CITY OF BOSTON, MASSACHUSETTS**

### **Required Supplementary Information Management's Discussion and Analysis**

*3.Fiduciary Funds Financial Statements* – These funds are used to account for resources held for the benefit of parties outside the City government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. They use the accrual basis of accounting.

The City's fiduciary funds are the Employee Retirement Funds (the State-Boston Retirement System), which accounts for the transactions, assets, liabilities, and net assets of the City employees' pension plan, and the Private Purpose Trust Funds which includes money held and administered by the City on behalf of third parties.

The fiduciary funds financial statements can be found immediately following the proprietary fund financial statements.

#### ***Notes to the Financial Statements***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found immediately following the fiduciary funds' financial statements.

#### ***Required Supplementary Information***

The basic financial statements are followed by a section of required supplementary information, which includes a schedule of funding progress and a schedule of employer contributions for the State-Boston Retirement System.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

This analysis is based on the statement of net assets and statement of activities found on pages A - 13 and A - 14 of the financial statements.

#### **Government-Wide Highlights:**

*Net Assets* – The total net assets of the City exceeded its liabilities at fiscal year ending June 30, 2002 by \$197.2 million (presented as "net assets"). Of this amount, \$22.9 million was reported as "unrestricted net assets". Unrestricted net assets represent the amount available to be used to meet the City's ongoing obligations to citizens and creditors.

*Changes in Net Assets* – The City's total net assets increased by \$179.5 million in fiscal year 2002. Net assets of governmental activities increased by \$147.1 million, while net assets of the business-type activities showed an increase of \$32.4 million.

#### **Net Assets**

The components of net assets are comprised of the following: the investment in capital assets such as land, buildings, equipment, and infrastructure (road, bridges, and other immovable assets), less any related debt used to acquire that asset that is still outstanding – the amount is a deficit of \$92.7 million indicating that the amount of capital debt outstanding exceeds the net book value of the City's fixed assets. The deficit in "Invested in capital assets, net of related debt" results, in part from the capitalization threshold established by the City whereby capital assets of less than \$15,000 in cost are not capitalized for financial statement purposes, from the refunding of capital debt which results in monetary savings to the City, but often extends the life of the debt beyond the

See independent auditor's report.

# CITY OF BOSTON, MASSACHUSETTS

## Required Supplementary Information Management's Discussion and Analysis

depreciable lives of the related capital assets and from other non-capitalized financing costs related to the debt. The City uses these capital assets to provide services to citizens; consequentially, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### City of Boston's Net Assets-Primary Government (expressed in thousands)

	Governmental activities	Business-type activities	Total
Current assets	\$ 905,639	68,079	973,718
Capital assets	781,942	—	781,942
Other assets	2,102	1,555	3,657
Due from others	19,250	129,103	148,353
Total assets	1,708,933	198,737	1,907,670
Noncurrent liabilities	1,014,892	251,150	1,266,042
Other liabilities	437,311	7,104	444,415
Total liabilities	1,452,203	258,254	1,710,457
Invested in capital assets net of related debt	(92,711)	—	(92,711)
Restricted	266,999	—	266,999
Unrestricted	82,442	(59,517)	22,925
Total net assets	\$ 256,730	(59,517)	197,213

At the end of the current fiscal year, the City is reporting a positive balance for the government as a whole. The negative balance reported for Business-Type activities is offset by the positive balance reported for Government Activities. The negative balance in Business-Type Activities is a result of special obligation and revenue bonds outstanding at year-end. These costs are intended to be covered by user fees and charges to external users of goods and services.

### Changes in Net Assets

The City's governmental activities net assets increased by \$147.1 million from the prior year. The City's two largest sources of revenues were property and excise taxes of \$1.08 billion and \$844.7 million operating and capital grants from the federal and state governments. Approximately 50.4% of the City's total revenue came from taxes, while 12.3 % resulted from grants and contributions (including federal aid). Charges for various goods and services, interest and other miscellaneous revenues totaled \$237.2 million. The City's expenses cover a range of services. The largest expenses were for schools (\$768.4 million), public safety (\$429.2 million), property and development (\$112.8 million), county (\$109.3 million), employee benefits (\$101.1) million and retirement costs (\$82.0 million). In 2002, governmental activities expenses exceeded program revenues (i.e., user charges, operating grants and capital grants) by \$1.31 billion. This shortfall was covered primarily through taxes (\$1.10 billion) and non-specific grants of (\$272.2 million).

See independent auditor's report.

# CITY OF BOSTON, MASSACHUSETTS

## Required Supplementary Information Management's Discussion and Analysis

Net revenues from business-type activities exceeded expenses by \$32.4 million due primarily to the receipt of grant funds exceeding the City's contributions to the State for the construction of a convention center.

### City of Boston Changes in Net Asset-Primary Government (expressed in thousands)

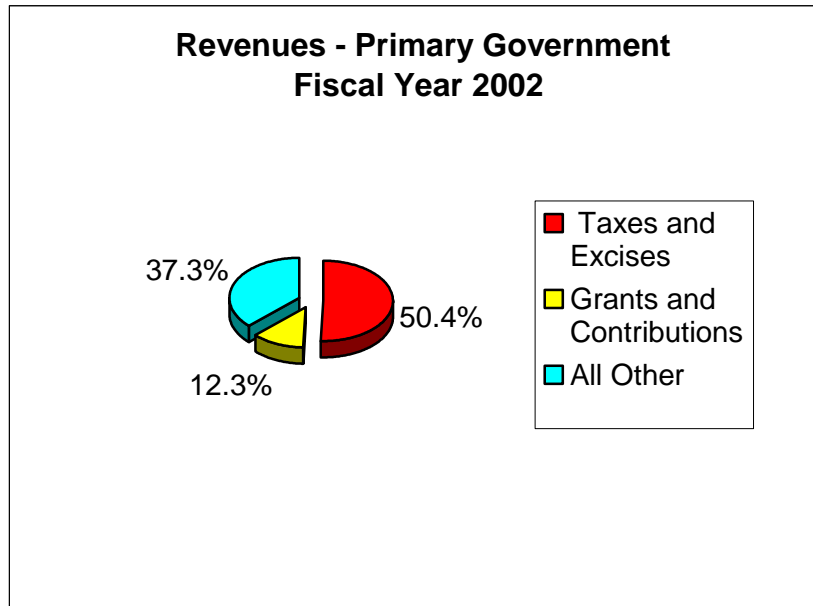
	<b>Governmental activities</b>	<b>Business-type activities</b>	<b>Total</b>
Expenditures:			
General Government	\$ (59,084)	—	(59,084)
Human Services	(863)	—	(863)
Public Safety	(309,260)	—	(309,260)
Public Works	(58,962)	—	(58,962)
Property and Development	(37,623)	—	(37,623)
Parks and Recreation	(18,230)	—	(18,230)
Library	(32,982)	—	(32,982)
Schools	(423,765)	—	(423,765)
County	(13,397)	—	(13,397)
Public Health Programs	(64,537)	—	(64,537)
Judgments and Claims	(2,724)	—	(2,724)
Retirement Costs	(79,837)	—	(79,837)
Other Employee Benefits	(101,059)	—	(101,059)
State & District Assessments	(67,769)	—	(67,769)
Interest on long-term debt	(38,514)	—	(38,514)
Convention Center	—	19,660	19,660
Hospital	—	(8,232)	(8,232)
Total expenditures	(1,308,606)	11,428	(1,297,178)
General Revenues:			
Taxes:			
Property taxes, levied for general purposes	967,762	—	967,762
Excises	109,503	5,079	114,582
Payment in lieu of taxes	36,332	—	36,332
Grants and contributions not restricted	272,150	—	272,150
Investment income	23,097	8,594	31,691
Miscellaneous	33,568	7,303	40,871
Special Item - gain on sale of capital assets	13,300	—	13,300
Total revenues	1,455,712	20,976	1,476,688
Change in net assets	147,106	32,404	179,510
Net assets – beginning	109,624	(91,921)	17,703
Net assets – ending	\$ 256,730	(59,517)	197,213

See independent auditor's report.

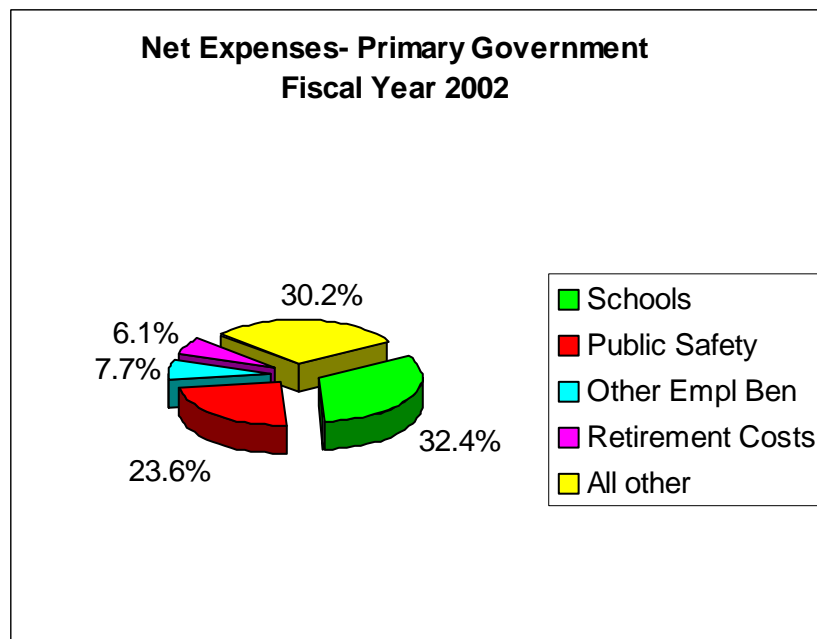
**CITY OF BOSTON, MASSACHUSETTS**

Required Supplementary Information  
Management's Discussion and Analysis

**Revenues – Primary Government  
Fiscal Year 2002**



**Net Expenses - Primary Government  
Fiscal Year 2002**



See independent auditor's report.



## **CITY OF BOSTON, MASSACHUSETTS**

### **Required Supplementary Information Management's Discussion and Analysis**

#### **Business-Type Activities**

The business-type activities increased the City's change in net assets by \$32.4 million. This resulted from a \$19.6 million increase in grants for the Convention Center and \$21.0 million in excises, investment income and miscellaneous revenue offset by \$8.2 million interest expense for the Hospital revenue bonds.

#### **FINANCIAL ANALYSIS OF THE CITY'S INDIVIDUAL FUNDS**

This analysis is based on the Fund Financial Statements on pages A - 15 through A - 25.

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

#### **Fund Highlights:**

*Governmental Funds – Fund Balances* – As of the close of fiscal year 2002, the City's governmental funds reported a combined ending fund balance of \$641.2 million, an increase of \$135.9 million from the prior year. Of this total amount, \$329.2 million represents the "unreserved and undesignated fund balances" with \$345.8 million of this amount being in the general fund.

#### **Governmental Funds**

*General Fund – Fund Balance* – The general fund is the chief operating fund of the City. The City's General Fund – Fund Balance Policy is to maintain a GAAP undesignated fund balance in the general fund that is 10%, or higher, of GAPP general fund operating expenditures for the fiscal year. The GAAP undesignated fund balance at the end of fiscal year 2002 was \$345.8 million, which represents approximately 20% of GAAP general fund operating expenditures.

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's financial position at the end of the fiscal year.

However, because the City is required to follow the statutory basis of accounting rather than GAAP for determining the amount of undesignated fund balance that can be appropriated, it is the statutory (not the GAAP) fund balance that is used to calculate "free cash". Free cash is the amount of statutory fund balance in the general fund, as certified by the Commonwealth of Massachusetts' Department of Revenue, that is available for appropriation and is generated when actual revenues on a cash basis exceeded budgeted amounts and encumbrances are less than appropriations or both.

The City of Boston has established this policy to ensure that the City maintains adequate levels of fund balance to mitigate current and future risks (i.e. revenue shortfalls and unanticipated expenditures). The policy states that the City shall maintain a GAAP undesignated fund balance in the general fund that is 10% or higher than the current fiscal year's GAAP general fund operating expenditures; and that the City shall only consider the certification of free cash (as defined by the Commonwealth of Massachusetts' Department of Revenue) in years where the appropriation of free cash shall not cause the fiscal year's GAAP undesignated fund balance to go below 10% of the fiscal year's GAAP general fund expenditures; and the City shall only consider the appropriation of certified free cash to offset: (1) certain fixed costs such as pension contributions and related post

See independent auditor's report.

## **CITY OF BOSTON, MASSACHUSETTS**

### **Required Supplementary Information Management's Discussion and Analysis**

retirement health benefits; and/or (2) to fund extraordinary and non-recurring events as determined and certified by the City Auditor.

The general fund budgetary highlights include ending fiscal year 2002 with a \$5.2 million dollar surplus. This represents the City's 17<sup>th</sup> consecutive year with a balanced budget. Changes to the original budget resulted in a \$5.5 million dollar increase in the overall budget. While \$4.3 million was appropriated to various departments throughout the year to cover the costs of collective bargaining agreements, \$1.2 million was appropriated in Public Safety and the Boston Public Health Commission to support the Youth Fund Summer Jobs Program and to provide additional homeless beds to accommodate the winter overflow in area shelters.

These supplemental appropriations were funded from available sources revenue. During the year, revenues exceeded budgetary estimates, thus eliminating the need to draw on existing fund balance.

*Special Revenue – Fund Balance* – The special revenue fund accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The fiscal year 2002 special revenue fund balance is reported at \$120.7 million, a \$7.5 million increase over fiscal year 2001.

*Capital Projects Fund – Fund Balance* - The capital projects fund accounts for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds and trust funds. The fiscal year 2002 capital projects fund fund balance is \$74.7 million. The \$66.9 million increase over fiscal year 2001 is attributable to the timing of borrowing.

*Other Governmental Funds – Fund Balance* – Other governmental funds account for assets held by the City in a trustee capacity or as an agent. The fiscal year 2002 other governmental funds balance is \$43.8 million.

#### **Proprietary Funds**

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The City's proprietary funds net assets for fiscal year 2002 are a negative \$59.5 million. As stated in the discussion on the government-wide financial statements, the negative balance in the proprietary funds is a result of the Convention Center special obligation bonds and Hospital revenue bonds outstanding at year-end.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **Capital Assets**

The City's investment in capital assets for its governmental activities as of June 30, 2002, included \$1.73 billion of cost and accumulated depreciation of \$948.1 million, leaving a net book value of \$781.9 million. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and have value only to the City, such as roads, bridges, and streets and sidewalks, drainage systems, lighting systems, and similar items.

## **CITY OF BOSTON, MASSACHUSETTS**

### **Required Supplementary Information Management's Discussion and Analysis**

The total increase in the City's investment in capital assets for the current fiscal year was about 15.8% in terms of net book value. However, actual expenditures to purchase or construct capital assets were \$144.7 million for the year. Most of this amount was used to construct or reconstruct roads and bridges. Depreciation charges for the year totaled \$37.8 million. Additional information on the City's capital assets can be found in Note 8 of the notes to the basic financial statements.

#### **Long-term Debt**

*Debt Administration* - The authority of the City to incur debt is governed by federal and state laws that restrict the amounts and purposes for which a municipality can incur debt.

*Outstanding Debt* - The City's total governmental long-term debt obligations increased by \$106.9 million, or (9.8%) during the current fiscal year. The key factor in this increase was the issuance of 2002 Series A \$100.0 million General Obligation Bonds and \$62.0 million of Bond Anticipation Notes. General obligation bonds are backed by the full faith and credit of the City, including the City's power to levy additional taxes to ensure repayment of the debt. Accordingly, all general obligation debt currently outstanding was approved by a vote of the City Council.

The City's governmental long-term bonds and notes increased by \$83.4 million during the current fiscal year, due to the issuance of the 2002 Series A \$100.0 million General Obligation Bonds and \$62.0 million of Bond Anticipation Notes (BAN's). At June 30, 2002, other governmental long-term obligations totaled \$242.5 million.

The long-term debt to be paid by the business type activities decreased \$45.4 million due to the issuance of \$116.9 million of Special Obligation Bonds, the proceeds of which were used to repay a portion of outstanding BAN with a face amount of \$157.8 million.

Additional information on the City's long-term debt obligations can be found in Note 10 of the notes to the basic financial statements.

#### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the City of Boston's finances for all of City of Boston's citizens, taxpayers, customers, and investors and creditors. This financial report seeks to demonstrate the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: City of Boston, Auditing Department, Boston City Hall, Room M-4, Boston, MA 02201.

# CITY OF BOSTON, MASSACHUSETTS

## Statement of Net Assets

June 30, 2002

(In thousands)

Assets	Primary government			Component units
	Governmental activities	Business-type activities	Total	
Cash and investments	\$ 681,101	702	681,803	134,065
Cash and investments held by trustees	63,542	64,777	128,319	10,597
Receivables, net:				
Property taxes	10,980	—	10,980	—
Intergovernmental	134,516	2,600	137,116	—
Other	15,500	—	15,500	92,436
Other assets	2,102	1,555	3,657	164,633
Capital assets:				
Nondepreciable	415,762	—	415,762	25,006
Depreciable, net	366,180	—	366,180	27,006
Due from other funds	—	—	—	7,069
Due from components units	19,250	129,103	148,353	—
Due from primary government	—	—	—	108
Total assets	1,708,933	198,737	1,907,670	460,920
<b>Liabilities</b>				
Warrants and accounts payable	66,171	269	66,440	97,436
Accrued liabilities - current:				
Compensated absences	54,655	—	54,655	—
Judgment and claims	17,051	—	17,051	—
Other	151,201	—	151,201	3,021
Current portion of long-term debt	121,395	6,835	128,230	859
Due to other funds	—	—	—	14,059
Due to component unit	108	—	108	—
Due to primary government	—	—	—	148,353
Deferred revenue	26,730	—	26,730	46,392
Noncurrent liabilities:				
Bonds, notes and leases	837,593	251,150	1,088,743	21,628
Bond anticipation note payable	25,000	—	25,000	—
Other	152,299	—	152,299	10,770
Total liabilities	1,452,203	258,254	1,710,457	342,518
<b>Net Assets</b>				
Investment in capital assets, net of related debt	(92,711)	—	(92,711)	29,339
Restricted for:				
Capital projects	74,654	—	74,654	—
Unspent bond proceeds	27,861	—	27,861	—
Other purposes	164,484	—	164,484	56,969
Unrestricted	82,442	(59,517)	22,925	32,094
Total net assets	\$ 256,730	(59,517)	197,213	118,402

See accompanying notes to basic financial statements.

**CITY OF BOSTON, MASSACHUSETTS**

Statement of Activities

Year ended June 30, 2002

(In thousands)

		Program revenues			Net (expense) revenue and changes in net assets			
Functions/Programs	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Primary government			Component units
					Governmental activities	Business-type activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 84,350	15,058	10,208	—	(59,084)	—	(59,084)	—
Human services	11,730	650	10,217	—	(863)	—	(863)	—
Public safety	429,216	90,498	29,458	—	(309,260)	—	(309,260)	—
Public works	82,891	3,412	6,699	13,818	(58,962)	—	(58,962)	—
Property and development	112,787	1,576	73,588	—	(37,623)	—	(37,623)	—
Parks and recreation	18,504	53	221	—	(18,230)	—	(18,230)	—
Library	38,112	101	5,029	—	(32,982)	—	(32,982)	—
Schools	768,428	17,278	310,257	17,128	(423,765)	—	(423,765)	—
Public health programs	64,537	—	—	—	(64,537)	—	(64,537)	—
County	109,340	31	95,912	—	(13,397)	—	(13,397)	—
Judgments and claims	2,724	—	—	—	(2,724)	—	(2,724)	—
Retirement costs	82,034	2,197	—	—	(79,837)	—	(79,837)	—
Other employee benefits	101,059	—	—	—	(101,059)	—	(101,059)	—
State and district assessments	67,769	—	—	—	(67,769)	—	(67,769)	—
Interest on long-term debt	38,514	—	—	—	(38,514)	—	(38,514)	—
Total governmental activities	2,011,995	130,854	541,589	30,946	(1,308,606)	—	(1,308,606)	—
Business-type activities:								
Convention Center	19,035	—	38,695	—	—	19,660	19,660	—
Hospital bonds	8,232	—	—	—	—	(8,232)	(8,232)	—
Total business-type activities	27,267	—	38,695	—	—	11,428	11,428	—
Total primary government	\$ 2,039,262	130,854	580,284	30,946	(1,308,606)	11,428	(1,297,178)	—
Component units:								
Public Health Commission	\$ 126,755	—	128,758	—	—	—	—	2,003
Boston Redevelopment Authority	26,234	—	—	—	—	—	—	(26,234)
Trustees of the Boston Public Library	13,956	—	11,569	—	—	—	—	(2,387)
Economic Development	33,213	98	20,471	—	—	—	—	(12,644)
Total component units	\$ 200,158	98	160,798	—	—	—	—	(39,262)
General revenues:								
Taxes:								
Property taxes, levied for general purposes					\$ 967,762	—	967,762	—
Excises					109,503	5,079	114,582	—
Payments in lieu of taxes					36,332	—	36,332	—
Grants and contributions not restricted					272,150	—	272,150	—
Investment income					23,097	8,594	31,691	1,199
Miscellaneous					33,568	7,303	40,871	36,853
Special item - gain on sale of capital assets					13,300	—	13,300	—
Total general revenues and transfers					1,455,712	20,976	1,476,688	38,052
Change in net assets					147,106	32,404	179,510	(1,210)
Net assets - beginning					109,624	(91,921)	17,703	119,612
Net assets - ending					\$ 256,730	(59,517)	197,213	118,402

See accompanying notes to basic financial statements.

**CITY OF BOSTON, MASSACHUSETTS**

Balance Sheet - Governmental Funds

June 30, 2002

(In thousands)

	<b>General</b>	<b>Special revenue</b>	<b>Capital projects</b>	<b>Other governmental funds</b>	<b>Total governmental funds</b>
<b>Assets</b>					
Cash and investments	\$ 482,419	106,093	80,537	—	669,049
Cash and investments held by trustees	16,008	—	3,745	43,789	63,542
Receivables, net:					
Property taxes	37,555	—	—	—	37,555
Intergovernmental	78,215	56,301	—	—	134,516
Departmental and other	11,616	195	—	—	11,811
Total receivables	127,386	56,496	—	—	183,882
Due from component units	19,250	—	—	—	19,250
Total assets	<u>\$ 645,063</u>	<u>162,589</u>	<u>84,282</u>	<u>43,789</u>	<u>935,723</u>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Warrants and accounts payable	\$ 41,940	14,597	9,593	16	66,146
Accrued liabilities:					
Tax abatements	25,022	—	—	—	25,022
Judgments and claims	10,000	—	—	—	10,000
Compensated absences	20,000	—	—	—	20,000
Other	86,499	27,281	—	—	113,780
Deferred revenue	58,237	—	—	—	58,237
Due to other funds	727	—	—	—	727
Due to component units	108	—	—	—	108
Other liabilities	421	—	35	—	456
Total liabilities	<u>242,954</u>	<u>41,878</u>	<u>9,628</u>	<u>16</u>	<u>294,476</u>
Fund balances (deficit):					
Reserved for:					
Encumbrances	20,262	44,111	112,020	—	176,393
Future appropriations	—	—	55,874	—	55,874
Unreserved:					
Designated for subsequent years expenditures	36,000	—	—	—	36,000
Undesignated	345,847	76,600	(93,240)	—	329,207
Undesignated, reported in permanent funds	—	—	—	43,773	43,773
Total fund balance	<u>402,109</u>	<u>120,711</u>	<u>74,654</u>	<u>43,773</u>	<u>641,247</u>
Total liabilities and fund balances	<u>\$ 645,063</u>	<u>162,589</u>	<u>84,282</u>	<u>43,789</u>	<u>935,723</u>

See accompanying notes to basic financial statements.

# CITY OF BOSTON, MASSACHUSETTS

## Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2002

(In thousands)

Total fund balance - Governmental Funds	\$ 641,247
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:	
Land	14,466
Land improvements	15,507
Buildings and improvements	939,198
Equipment	117,191
Infrastructure	242,383
Construction in progress	401,296
Less: accumulated depreciation	(948,099)
	<u>781,942</u>
Adjust deferred revenues to record tax revenues on an accrual basis	<u>8,470</u>
Internal service funds are included in the government wide statements	<u>7,460</u>
Bond issuance costs are capitalized in the government wide statements	<u>496</u>
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
General obligation bonds and notes	(956,744)
Capital leases	(26,036)
Bond issue premium	(1,208)
Accrued interest on bonds	(12,399)
Compensated absences	(149,177)
Landfill	(14,871)
Judgments and claims	(22,450)
	<u>(1,182,885)</u>
Net assets of governmental activities	\$ <u><u>256,730</u></u>

See accompanying notes to basic financial statements.

**CITY OF BOSTON, MASSACHUSETTS**

Statement of Revenues, Expenditures, and Changes in Fund Balances -  
Governmental Funds

Year ended June 30, 2002

(In thousands)

	<u>General</u>	<u>Special revenue</u>	<u>Capital projects</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
Revenues:					
Real and personal property taxes	\$ 990,848	—	—	—	990,848
Excises	111,114	—	—	—	111,114
Payments in lieu of taxes	36,332	—	—	—	36,332
Fines	60,601	44	—	—	60,645
Investment income	14,596	159	—	113	14,868
Licenses and permits	33,325	252	—	—	33,577
Departmental and other	62,200	10,478	8,649	1,616	82,943
Intergovernmental	492,299	334,961	13,609	—	840,869
Total revenues	<u>1,801,315</u>	<u>345,894</u>	<u>22,258</u>	<u>1,729</u>	<u>2,171,196</u>
Expenditures:					
Current:					
General government	77,019	7,131	—	6,284	90,434
Human services	6,434	5,290	—	—	11,724
Public safety	405,844	21,888	—	—	427,732
Public works	74,651	407	—	—	75,058
Property and development	48,774	63,081	—	—	111,855
Parks and recreation	16,230	396	—	—	16,626
Library	28,695	5,261	—	—	33,956
Schools	627,653	130,162	—	—	757,815
Public Health Programs	64,537	—	—	—	64,537
County	4,537	104,754	—	—	109,291
Judgments and claims	2,724	—	—	—	2,724
Retirement costs	82,034	—	—	—	82,034
Other employee benefits	107,701	—	—	—	107,701
State and district assessments	67,769	—	—	—	67,769
Capital outlays	5,177	—	139,593	—	144,770
Debt service	115,366	3,894	—	—	119,260
Total expenditures	<u>1,735,145</u>	<u>342,264</u>	<u>139,593</u>	<u>6,284</u>	<u>2,223,286</u>
Excess (deficiency) of revenues over expenditures	66,170	3,630	(117,335)	(4,555)	(52,090)
Other financing sources (uses):					
Proceeds of long-term debt and capital leases	—	3,839	170,915	—	174,754
Operating transfers in	1,778	—	—	—	1,778
Operating transfers out	—	—	—	(1,778)	(1,778)
Total other financing sources (uses)	<u>1,778</u>	<u>3,839</u>	<u>170,915</u>	<u>(1,778)</u>	<u>174,754</u>
Special item:					
Proceeds from sale of capital assets	—	—	13,300	—	13,300
Net change in fund balances	67,948	7,469	66,880	(6,333)	135,964
Fund balance - beginning, restated (note 3)	334,161	113,242	7,774	50,106	505,283
Fund balance - ending	<u>\$ 402,109</u>	<u>120,711</u>	<u>74,654</u>	<u>43,773</u>	<u>641,247</u>

See accompanying notes to basic financial statements.



## CITY OF BOSTON, MASSACHUSETTS

### Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities

Year ended June 30, 2002

Net change in fund balances - total governmental funds	\$ <u>135,964</u>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is depreciated over their estimated useful lives. Capital outlay (\$144,770) exceeded depreciation expense (\$37,773).	<u>106,997</u>
Tax revenues in the statement of activities that are not reported as revenues in the governmental funds.	<u>(24,697)</u>
Proceeds of long-term debt (\$174,754) increase long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Repayment of bond principal (\$93,186) is an expenditure in the governmental funds, but reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.	<u>(81,568)</u>
Bond premiums (\$1,208) increase the long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Bond issuance costs (\$496) are expenditures in the governmental funds, but are deferred assets in the statement of net assets. This is the amount by which premiums exceeded issuance costs.	<u>(712)</u>
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This amount represents the decrease in compensated absences (\$2,910) and landfill liabilities (\$1,662) offset by an increase in interest payable (\$602).	<u>3,970</u>
Net income from the internal service fund which is presented in the statement of activities, but not in the governmental funds.	<u>7,152</u>
Change in net assets of governmental activities	\$ <u><u>147,106</u></u>

See accompanying notes to basic financial statements.

# CITY OF BOSTON, MASSACHUSETTS

## Statement of Revenues and Expenditures - Budgetary Basis General Fund - Budget and Actual

Year ended June 30, 2002  
(with comparative actual amounts for 2001)

(In thousands)

	<b>2002</b>			<b>Variance</b>	<b>2001</b>
	<b>Original budget</b>	<b>Final budget</b>	<b>Actual</b>	<b>favorable (unfavorable)</b>	<b>Actual</b>
Revenues and other available funds:					
Real and personal property					
taxes, net	\$ 925,937	925,937	926,336	399	874,013
Excises	105,720	107,620	112,304	4,684	105,473
Commonwealth of Massachusetts	550,452	550,452	541,456	(8,996)	525,169
Departmental and other revenue	48,331	48,331	62,193	13,862	53,100
Fines	58,271	59,010	60,659	1,649	59,769
Payments in lieu of taxes	26,281	29,087	36,332	7,245	39,994
Investment income	15,550	15,550	14,801	(749)	26,084
Licenses and permits	23,815	23,815	29,651	5,836	37,824
Other available funds	13,654	13,654	4,568	(9,086)	8,355
Total revenues and other available funds	<u>1,768,011</u>	<u>1,773,456</u>	<u>1,788,300</u>	<u>14,844</u>	<u>1,729,781</u>
Expenditures:					
General government	66,532	66,053	70,702	(4,649)	73,696
Human services	5,939	6,416	6,398	18	5,598
Public safety	400,827	402,762	405,150	(2,388)	381,275
Public works	72,198	74,984	74,833	151	78,044
Property and development	39,202	40,636	41,630	(994)	53,523
Parks and recreation	15,852	16,174	16,071	103	15,262
Library	28,702	28,813	28,813	—	29,981
Schools	637,446	639,729	639,710	19	611,925
Boston Public Health Commission	62,913	64,005	64,005	—	62,141
County	4,537	4,537	4,537	—	6,030
Judgments and claims	4,100	4,100	5,000	(900)	2,008
Other employee benefits	108,202	106,686	107,473	(787)	95,132
Retirement costs	135,710	135,710	135,710	—	133,775
State and district assessments	67,511	67,511	67,769	(258)	66,788
Debt requirements	118,340	115,340	115,332	8	105,978
Total expenditures	<u>1,768,011</u>	<u>1,773,456</u>	<u>1,783,133</u>	<u>(9,677)</u>	<u>1,721,156</u>
Excess of revenues and other available funds over expenditures	\$ <u>—</u>	<u>—</u>	<u>5,167</u>	<u>5,167</u>	<u>8,625</u>

See accompanying notes to basic financial statements.

**CITY OF BOSTON, MASSACHUSETTS**

Statement of Net Assets - Proprietary Funds

June 30, 2002

(In thousands)

Assets	Enterprise funds			Internal service
	Convention center	Hospital revenue bonds	Total	
Current assets:				
Cash and investments	\$ 702	—	702	12,052
Cash and investments held by trustees	39,431	25,346	64,777	—
Receivables, net	—	—	—	151
Due from component units	—	129,103	129,103	—
Due from other funds	—	—	—	727
Due from other governments	2,600	—	2,600	—
Other assets	1,555	—	1,555	1,606
Total current assets	44,288	154,449	198,737	14,536
Total assets	44,288	154,449	198,737	14,536
<b>Liabilities</b>				
Current liabilities:				
Warrants and accounts payable	269	—	269	25
Accrued liabilities	—	—	—	7,051
Current portion of long-term debt	2,100	4,735	6,835	—
Total current liabilities	2,369	4,735	7,104	7,076
Noncurrent liabilities:				
Special obligation bonds	114,790	—	114,790	—
Revenue bonds	—	136,360	136,360	—
Total noncurrent liabilities	114,790	136,360	251,150	—
Total liabilities	117,159	141,095	258,254	7,076
<b>Net Assets</b>				
Unrestricted	(72,871)	13,354	(59,517)	7,460
Total net assets	\$ (72,871)	13,354	(59,517)	7,460

See accompanying notes to basic financial statements.

**CITY OF BOSTON, MASSACHUSETTS**

Statement of Revenues, Expenses, and Changes in Net Assets - Proprietary Funds

Year ended June 30, 2002

(In thousands)

	<b>Enterprise funds</b>			
	<b>Convention center</b>	<b>Hospital revenue bonds</b>	<b>Total</b>	<b>Internal service</b>
Operating revenues:				
Contributions	\$ —	—	—	71,409
Excise taxes – pledged for debt service	5,079	—	5,079	—
Departmental and other – pledged for debt service	6,270	1,033	7,303	510
Total operating revenues	11,349	1,033	12,382	71,919
Operating expenses:				
Contributions to State	19,035	—	19,035	—
Health benefits	—	—	—	64,767
Total operating expenses	19,035	—	19,035	64,767
Operating (loss) income	(7,686)	1,033	(6,653)	7,152
Nonoperating revenue (expense):				
Intergovernmental - state grants	38,695	—	38,695	—
Investment earnings - pledged for debt service	—	8,579	8,579	—
Investment earnings - other	15	—	15	—
Interest expense	—	(8,232)	(8,232)	—
Total nonoperating revenue (expense)	38,710	347	39,057	—
Change in net assets	31,024	1,380	32,404	7,152
Total net assets - beginning	(103,895)	11,974	(91,921)	308
Total net assets - ending	\$ (72,871)	13,354	(59,517)	7,460

See accompanying notes to basic financial statements.

**CITY OF BOSTON, MASSACHUSETTS**  
Statement of Cash Flows - Proprietary Fund Type  
Year ended June 30, 2002  
(In thousands)

	<b>Enterprise fund</b>			
	<b>Convention center</b>	<b>Hospital revenue bonds</b>	<b>Total</b>	<b>Internal service</b>
Cash flows from operations:				
Cash received from customers	\$ —	—	—	71,307
Other cash received	7,463	5,024	12,487	510
Cash paid to vendors	—	—	—	(67,479)
Cash paid to state	(19,035)	—	(19,035)	—
Net cash (provided) used in operations	(11,572)	5,024	(6,548)	4,338
Cash flows from noncapital financing activities:				
Grants received from state	38,695	—	38,695	—
Net cash provided by noncapital financing activities	38,695	—	38,695	—
Cash flows from capital and related financing activities:				
Interest paid on debt	—	(8,232)	(8,232)	—
Proceeds of long-term debt	116,890	—	116,890	—
Repayment of long-term debt	(157,800)	(4,485)	(162,285)	—
Net cash used by capital and related financing activities	(40,910)	(12,717)	(53,627)	—
Cash flows from investing activities:				
Investment income	15	8,579	8,594	—
Net cash provided by investing activities	15	8,579	8,594	—
(Decrease) increase in cash and cash equivalents	(13,772)	886	(12,886)	4,338
Cash and cash equivalents, beginning of year	53,905	24,460	78,365	7,714
Cash and cash equivalents, end of year	\$ 40,133	25,346	65,479	12,052

**CITY OF BOSTON, MASSACHUSETTS**

Statement of Cash Flows - Proprietary Fund Type (Continued)

Year ended June 30, 2002

(In thousands)

		<b>Enterprise fund</b>		
	<b>Convention center</b>	<b>Hospital revenue bonds</b>	<b>Total</b>	<b>Internal service</b>
Reconciliation of operating income to cash provided by operating activities:				
Operating income (loss)	\$ (7,686)	1,033	(6,653)	7,152
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Changes in operating assets and liabilities:				
Accounts receivable	—	—	—	(102)
Intergovernmental receivables	(2,600)	—	(2,600)	170
Other assets	(1,555)	—	(1,555)	—
Due (to) from other funds	—	3,991	3,991	64
Accounts payable	269	—	269	3
Other accrued liabilities	—	—	—	(2,949)
Net cash (used) provided by operating activities	\$ <u>(11,572)</u>	<u>5,024</u>	<u>(6,548)</u>	<u>4,338</u>

See accompanying notes to basic financial statements.

# CITY OF BOSTON, MASSACHUSETTS

## Statement of Fiduciary Net Assets - Fiduciary Funds

June 30, 2002

(In thousands)

Assets	<b>Employee retirement plans</b>	<b>Private purpose trusts</b>	<b>Agency funds</b>
Cash and cash equivalents	\$ 444	71,394	4,160
Receivables:			
Interest and dividends	6,800	—	—
Other	64,886	2,245	—
Total receivables	71,686	2,245	—
Due from primary government	64,871	—	—
Investments, at fair value:			
Money market	1,104,405	—	—
MMDT	20,872	—	—
Short-term investments	110,797	—	—
Domestic equity securities	800,553	—	—
Domestic debt securities	294,337	—	—
International equity	342,950	—	—
International debt	144,352	—	—
Real estate	250,187	—	—
Venture capital funds	53,168	—	—
Total investments	3,121,621	—	—
Other assets	—	30	—
Total assets	3,258,622	73,669	4,160
<b>Liabilities</b>			
Accounts payable	10,121	714	—
Refunds payable and other	267,554	—	4,160
Total liabilities	277,675	714	4,160
<b>Net Assets</b>			
Held in trust for pension benefits and other purposes	\$ 2,980,947	72,955	

See accompanying notes to basic financial statements.

**CITY OF BOSTON, MASSACHUSETTS**

Statement of Changes in Fiduciary Net Assets -  
Fiduciary Funds

Year ended June 30, 2002

(In thousands)

	<b>Employee retirement plans</b>	<b>Private purpose trusts</b>
Additions:		
Contributions:		
Employers	\$ 150,061	—
Employees	89,844	—
Donations	—	13,725
Total contributions	<u>239,905</u>	<u>13,725</u>
Investment earnings:		
Net depreciation in the fair value of investments	(252,989)	(1,864)
Interest and dividends	70,852	4,239
Less investment expenses	<u>(8,120)</u>	<u>—</u>
Net investment (losses) earnings	(190,257)	2,375
Intergovernmental	<u>24,127</u>	<u>—</u>
Total additions	<u>73,775</u>	<u>16,100</u>
Deductions:		
Benefits	240,676	—
Reimbursement to other systems	7,299	—
Refunds of contributions	12,936	—
Borrower rebates and fees	8,445	—
Administrative expenses	<u>2,135</u>	<u>15,241</u>
Total deductions	<u>271,491</u>	<u>15,241</u>
Change in net assets	(197,716)	859
Net assets, beginning of year	<u>3,178,663</u>	<u>72,096</u>
Net assets, end of year	\$ <u><u>2,980,947</u></u>	<u><u>72,955</u></u>

See accompanying notes to basic financial statements.



# CITY OF BOSTON, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2002

### (1) The Financial Reporting Entity

The accounting policies followed in preparing the accompanying basic financial statements are as follows:

#### (a) *Primary Government*

The City of Boston (the City), incorporated as a town in 1630 and as a city in 1822, now exists under Chapter 486 of the Act of 1909 and Chapter 452 of the Acts of 1948 of the Commonwealth of Massachusetts (the Commonwealth) which, as amended, constitute the City's Charter. The Mayor is elected to a four-year term and serves as chief executive officer of the City. The Mayor has general supervision of and control over the City's boards, commissions, officers and departments including all operations of Suffolk County, except county courts. The legislative body of the City is the City Council, which consists of thirteen elected members serving two-year terms. The Mayor and City Council serve as the County Commissioners of Suffolk County.

The accompanying basic financial statements present the City of Boston which includes Suffolk County and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

#### (b) *Blended Component Unit Disclosure*

The following component unit has been presented as a blended component unit (included in the primary government) because the component unit provides services almost exclusively to the primary government:

**State-Boston Retirement System (SBRS)** – The SBRS is a defined benefit contributory retirement system created under state statute. It is administered by a Retirement Board comprised of five members: the City Auditor, who serves *ex officio*; two individuals elected by participants in the system; a fourth member appointed by the Mayor and a fifth member chosen by the other members. The SBRS provides pension benefits to retired City employees.

A complete set of financial statements for SBRS for the fiscal year ended December 31, 2001 can be obtained through the City Auditor's office, Room M-4, City Hall Plaza, Boston, Massachusetts 02201.

#### (c) *Discretely Presented Component Units Disclosure*

These component units are reported in a separate column to emphasize that they are legally separate from the City but are included because the City is financially accountable for and is able to impose its will on the organizations. Unless otherwise indicated, the notes to the basic financial statements pertain only to the primary government because certain disclosures of the component units are not significant relative to the total component units and to the primary government. A description of the component units, criteria for inclusion and their relationship with the City are as follows:

**Boston Redevelopment Authority (BRA)** – The BRA is a public body politic and corporate constituting the City's redevelopment authority and exercising the powers of a planning board for the City. The BRA is governed by a five-member board, four of whom are appointed by

## CITY OF BOSTON, MASSACHUSETTS

### Notes to Financial Statements

June 30, 2002

the Mayor. Its purpose is to provide planning support for major construction and redevelopment activity in the City.

**Economic Development and Industrial Corporation of Boston (EDIC)** – The EDIC is a body politic and corporate and an instrumentality of the Commonwealth. It is governed by the same persons appointed as members of the BRA board. The EDIC has various powers to assist industrial development projects in the City and together with the BRA assists the City with its economic development function.

**Boston Public Health Commission (PHC)** – The PHC is a body politic and corporate and public instrumentality of the Commonwealth, established by Chapter 147 of the Acts of 1995. PHC is governed by a seven-member board, six of whom are appointed by the Mayor and confirmed by the City Council, and one of whom is the chief executive officer of the Boston Medical Center (BMC). The PHC is responsible for the implementation of public health programs in the City.

**Trustees of the Public Library of the City of Boston (TPL)** – The TPL is a nonprofit organization qualified as a tax-exempt entity under Section 501(c)(3) of the Internal Revenue Code. Trustees of TPL are appointed by the Mayor. The TPL was established to benefit the public library system of the City.

The financial statements of the discretely presented component units are included for their respective fiscal year-ends, which is on June 30, 2002.

Complete financial statements of these discretely presented component units can be obtained through the City Auditor's office, Room M-4, City Hall Plaza, Boston, Massachusetts, 02201. In addition, condensed financial statements for the discretely presented component units are included in note 17.

#### (d) *Related Organizations*

The Mayor is also responsible for appointing members of the governing bodies of the Boston Housing Authority, Boston Industrial Development Finance Authority and Boston Water and Sewer Commission; however, the City's accountability for these organizations does not extend beyond making these appointments.

#### (2) **Summary of Significant Accounting Policies**

The accounting policies of the City of Boston, Massachusetts, conform to accounting principles generally accepted in the United States of America as applicable to governmental units as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, which established new financial reporting requirements for state and local governments throughout the United States. The statement requires new information and restructures much of the information that the City has presented in the past. Comparability with reports issued in prior years is affected. Other GASB Statements are required to be implemented in conjunction with GASB Statement 34. Therefore, the City has implemented the following GASB Statements in the current fiscal year: Statement 36 – *Recipient Reporting for Certain Shared Nonexchange Revenues*, Statement 37 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and Statement 38 –

## CITY OF BOSTON, MASSACHUSETTS

### Notes to Financial Statements

June 30, 2002

*Certain Financial Statement Note Disclosures.* The following is a summary of the more significant policies followed by the City:

**(a) Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**(b) Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

**Government-Wide Financial Statements**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as *program revenues*. Likewise, general revenues include all taxes.

**Governmental Fund Financial Statements**

Governmental fund financial statements are reported using the *current financial resources measurements focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon

## CITY OF BOSTON, MASSACHUSETTS

### Notes to Financial Statements

June 30, 2002

as they are “susceptible to accrual” (i.e., both measurable and available.) Revenues not considered to be *available* are recorded as deferred revenue.

The City applies the susceptible to accrual criteria to property taxes and intergovernmental revenues. In applying the susceptible to accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, resources must be expended on the specific purpose or project before any amounts will be reimbursed to the City; therefore, revenues are recognized based upon the amount of expenditures incurred. In the other, resources are virtually unrestricted and are usually revocable by the grantor only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met. Property taxes are recognized as revenue in the year for which taxes have been levied, provided they are collected within 60 days after year-end.

Expenditures generally are recorded when a liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and judgments and claims, are recorded only when payment is mature and due.

#### **Proprietary Fund, Fiduciary Fund, and Component Unit Financial Statements**

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from the collection of revenue pledged to repay debt. The principal operating revenues of the City’s enterprise funds are lease receipts and excise taxes. The principal operating revenues of the City’s internal service funds are charges to other funds for health insurance. Operating expenses for enterprise funds and internal service funds include the interest, administrative expenses, and vendor payments. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Governmental funds – The City reports the following major governmental funds:

The *general fund* is the City’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue fund* accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

The *capital activities fund* accounts for financial resources to be used for the acquisition or construction of major capital facilities.

## CITY OF BOSTON, MASSACHUSETTS

### Notes to Financial Statements

June 30, 2002

Proprietary funds – The City reports the following major proprietary funds:

The *Convention Center fund* accounts for the City activities related to the financing for the construction of a new state-owned convention center.

The *Hospital Revenue Bond Fund* accounts for the activities related to the Boston City Hospital Bonds.

Fiduciary funds – Additionally, the City reports the following fiduciary fund types:

The *private-purpose trust fund* is used to account for resources legally held in trust for the benefit of individuals, private organizations, or other governments.

The *pension trust fund* accounts principally for the activities of the State-Boston Employees Retirement System, a blended component unit, which accumulates resources for pension benefit payments to retired City employees.

The *agency funds* are used to report funds held by the City is a purely custodial capacity.

The City also uses an internal service fund to account for its self-insured health costs. Although the fund is presented in a separate column in the accompanying financial statements, it is not considered a major fund.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

**(c) *Cash Equivalents***

For purposes of the combined statement of cash flows, investments with original maturities of three months or less when purchased are considered to be cash equivalents.

**(d) *Basis of Investment Valuation***

Investments are presented in the accompanying basic financial statements at fair value. Where applicable, fair values are based on quotations from national securities exchanges, except for certain investments of the State-Boston Retirement System which are described in notes 5 and 11. Further, income from investments is recognized in the same fund as the related investments.

**(e) *Interfund Receivables and Payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

# CITY OF BOSTON, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2002

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

**(f) *Uncollectible Tax and Other Receivables***

All receivables are shown net of an allowance for uncollectibles. Amounts considered to be uncollectible are based on the type and age of the related receivable.

**(g) *Capital Assets***

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$25,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

<b>Assets</b>	<b>Years</b>
Buildings	30
Building improvements	20
Public domain infrastructure	30
System infrastructure	30
Vehicles	3
Office equipment	3
Computer equipment	3

**(h) *Compensated Absences***

Employees are granted sick and vacation leave in varying amounts. Upon retirement, termination or death, certain employees are compensated for unused sick and vacation leave (subject to certain limitations) at their then current rates of pay. The portion of the liability related to unused sick and vacation time that has matured or is due as of June 30, 2002 is recorded in the governmental fund financial statements. The portion expected to be paid within one year is recorded in the government-wide financial statements. The total amount to be paid in future years is presented in the government-wide statement of net assets. The liability for vacation leave is based on the amount earned but not used; for sick leave, it is based on the amount accumulated at the balance sheet date (vesting method). The liability for both amounts is calculated based on the pay or salary rates in effect at the balance sheet date.

## CITY OF BOSTON, MASSACHUSETTS

### Notes to Financial Statements

June 30, 2002

(i) ***Long-Term Obligations and Related Costs***

**Premiums, discounts and issue costs** – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Arbitrage Rebate** – Rebatable arbitrage earnings are calculated for the City by third parties and accounted for as a liability and a reduction of investment income in the general fund. At June 30, 2002, an accumulated arbitrage rebate liability of \$1.9 million was recorded in the general fund.

(j) ***Fund Equity***

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

(k) ***Tax Abatement Refunds***

All estimated tax abatement refunds have been recorded as a liability in the general fund.

(l) ***Landfill Postclosure Care Costs***

State and federal regulations require the City to place a final cover on its Gardner Street landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. At June 30, 2002, 100% of the Gardner Street landfill site had been used and had not accepted solid waste for several years. The City has completed the covering of this site in accordance with applicable laws and regulations.

The liability for postclosure care is estimated based on current cost, which is the amount that would be paid if all equipment, facilities and services included in the estimate were acquired during the current period. Such costs are recognized as expenditures in the general fund to the extent that they are due or matured and are expected to be paid with expendable available financial resources. The total liability is reported in the Government-Wide Statement of Net Assets. Expenditures related to the Gardner Street landfill site closure and postclosure care in fiscal 2002 were approximately \$1.7 million.

# CITY OF BOSTON, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2002

### (m) *Use of Estimates*

The preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### (3) **Implementation of New Accounting Standards**

As a result of implementing GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, certain fund liabilities that existed at June 30, 2001 were reduced to reflect only the portion of the liability that was “due”. The impact of this change on the general fund equity was to reduce liabilities and increase fund equity at July 1, 2001 by \$67.7 million.

GASB No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* redefined ‘enterprise funds’ resulting in the establishment of two enterprise funds – the Convention Center fund and the Hospital Bond fund. Both funds were established to account for activities related to bonds for which revenue streams have been pledged as security repayment. The activities of the funds were transferred to the enterprise funds effective July 1, 2001. The impact is as follows:

	<b>Capital Projects</b>	<b>Hospital Bond</b>	<b>Convention Center</b>
Balance as previously reported	\$ 25,086	—	—
Transfer to Convention Center	(1,032)	—	1,032
Transfer to Hospital Bond fund	(16,280)	16,280	—
Recognition of bonds payable	—	(145,580)	(157,800)
Recognition of lease receivable	—	156,832	—
Recognition of other assets/liabilities	—	(15,558)	52,873
Balance as restated	\$ <u>7,774</u>	<u>11,974</u>	<u>(103,895)</u>

### (4) **Budgetary Data**

The general fund is the only fund for which a budget is legally adopted. The budgets for all departments included in the general fund of the City, except the School Department, are prepared under the direction of the Mayor and City Council. The School Department budget is prepared under the direction of the School Committee.

Original and supplemental appropriations are submitted by the Mayor, approved by the City Council and lapse at year-end unless encumbered. The legal level of control over appropriations is at the department level. Amendments to the original budget must be approved by the City Council, except for a reallocation of appropriations of up to \$3 million which the Mayor may approve. Further, the City Auditor, with the approval of the Mayor, may make transfers from any appropriation to any other appropriation for purposes of eliminating deficits before closing the books for the fiscal year. After the close of the fiscal year, the



## **CITY OF BOSTON, MASSACHUSETTS**

### **Notes to Financial Statements**

June 30, 2002

City Auditor may, with the approval of the Mayor, apply any income, taxes and funds not disposed of and make transfers from any appropriation to any other appropriation for the purpose of closing the accounts for the fiscal year. Supplemental appropriations, other than the aforementioned transfers, were approximately \$5.4 million for the year.

The City must establish its property tax rate each year so that the resulting property tax levy will comply with the limits required by Proposition 2-1/2 (note 6). The tax levy must equal the sum of (a) the aggregate of all annual appropriations for expenditures; plus (b) the reserve accounts described in the following paragraph; plus (c) provision for the prior fiscal years' deficits, if any; less (d) the aggregate of all nonproperty tax revenues projected to be received by the City, including available funds, in amounts certified or approved by the Commonwealth for tax rate purposes.

In accordance with the 1986 amendments to the Funding Loan Act of 1982, the City has established two reserve funds. The first is a budget reserve fund which is required to be funded in stages to a final level of 2-1/2% of the prior year's overall departmental appropriations, except the School Department, by the beginning of fiscal 1990. It is available to be applied to extraordinary and unforeseen expenditures. The second is a separate reserve fund of 1% to 2-1/2% of the current year appropriation of the School Department to be applied to overexpenditures in that department.

The City's general fund budget is prepared on a basis other than accounting principles generally accepted in the United States of America (GAAP). The "actual" results column in the statement of revenues and expenditures - budgetary basis - general fund is presented on a "budgetary basis" to provide a meaningful comparison of actual results with the budget. The major differences between the budget and GAAP basis, where applicable, are that:

- (a) Revenues are recorded when cash is received except for real estate and personal property taxes are recorded as revenue when levied (budget), as opposed to when susceptible to accrual (GAAP).
- (b) Encumbrances and continuing appropriations which are recorded as the equivalent of expenditures (budget), as opposed to a reservation of fund balance (GAAP).
- (c) Certain activities and transactions are presented in separate funds (GAAP), rather than as components of the general fund (budget).
- (d) Amounts raised for the prior years' deficits and available funds from prior years' surpluses are recorded as revenue items (budget), but have no effect on GAAP revenues.

In addition, there are certain differences in classifications between revenues, expenditures and transfers.

# CITY OF BOSTON, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2002

The following reconciliation summarizes the differences between budgetary and GAAP basis accounting principles for the year ended June 30, 2002:

	<u>Revenue</u>	<u>Expenditures</u>	<u>Other financing sources (uses), net</u>	<u>Excess of revenue and other financing sources</u>
As reported on a budgetary basis	\$ 1,788,300	1,783,133	—	5,167
Adjustments:				
Revenues to modified accrual basis	66,740	—	—	66,740
Expenditures, encumbrances and accruals, net	—	3,959	—	(3,959)
Reclassifications:				
Parking meter revenue and expenditures to a special revenue fund	(2,790)	(2,790)	—	—
Debt service expenditures	—	—	—	—
State-funded teachers' retirement costs	(49,157)	(49,157)	—	—
Trust fund revenue	(1,778)	—	1,778	—
As reported on a GAAP basis	<u>\$ 1,801,315</u>	<u>1,735,145</u>	<u>1,778</u>	<u>67,948</u>

### (5) Deposits and Investments

State and local statutes place certain limitations on the nature of deposits and investments available to the City. Deposits, including demand deposits, money markets and certificates of deposit in any one financial institution, may not exceed certain levels unless collateralized by the financial institution involved. Investments may be made in unconditionally guaranteed U.S. Government obligations having maturities of a year or less from the date of purchase, or through repurchase agreements with maturities of no greater than 90 days in which the underlying securities consist of such obligations. Other allowable investments include authorized bonds of all states, bankers' acceptances, commercial paper rated within the three highest classifications established by rating agencies, and units in the Massachusetts Municipal Depository Trust (MMDT). The Treasurer of the Commonwealth of Massachusetts oversees the financial management of the MMDT, a local investment pool for cities, towns and other state and other local agencies within the Commonwealth. The City's fair value of its investment in the MMDT represents their value of the pool's shares.

The City's pension and certain other trust funds have additional investment powers, most notably the ability to invest in common stocks, corporate bonds and other specified investments.

#### (a) Deposits

The City categorized deposits according to the level of risk assumed. Category 1 includes deposits which are fully insured or collateralized with securities held by the entity or its agent in the entity's name. Category 2 includes deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name. Category 3 includes those

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Financial Statements

June 30, 2002

deposits that are not collateralized. The City's deposits at June 30, 2002 are as follows (in thousands):

		<b>Category</b>			<b>Total bank balance</b>	<b>Carrying amount</b>
		<b>1</b>	<b>2</b>	<b>3</b>		
Total cash deposits	\$	<u>6,464</u>	<u>—</u>	<u>91,115</u>	<u>97,579</u>	<u>98,761</u>

**(b) Investments**

The City and SBRS categorize investments according to the level of risk assumed. Category 1 includes investments that are insured, registered or held by the entity or its agent in the entity's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the entity's name. Category 3 includes uninsured and unregistered investments held by the counterparty, or by its trust department or agent but not in the entity's name. MMDT, other mutual funds, pooled funds, venture capital funds and real estate investments are not categorized. The City's investments are as follows (in thousands):

<b>Primary government June 30, 2002</b>		<b>Category</b>			<b>Fair value</b>
		<b>1</b>	<b>2</b>	<b>3</b>	
Categorized:					
U.S. Government obligations	\$	—	9,304	—	9,304
Debt securities		—	16,280	—	16,280
Equity securities		—	<u>9,858</u>	—	<u>9,858</u>
	\$	<u>—</u>	<u>35,442</u>	<u>—</u>	
Not categorized:					
Repurchase agreements					212,800
MMDT					475,412
Mutual funds					<u>63,705</u>
	\$				<u>787,359</u>

# CITY OF BOSTON, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2002

SBRS – December 31, 2001	Category			Fair value
	1	2	3	
Categorized:				
Short-term investments	\$ 110,797	—	—	110,797
Domestic equity securities	757,482	—	—	757,482
Domestic debt securities	220,213	—	—	220,213
International equity	286,949	—	—	286,949
International debt	144,079	—	—	144,079
	<u>\$ 1,519,520</u>	<u>—</u>	<u>—</u>	
Not categorized:				
Investments held by broker-dealer under securities loans				347,893
MMDT				20,872
Pooled funds				929,981
Real estate				250,187
Venture capital funds				53,168
				<u>\$ 3,121,621</u>

The composition of the City's bank deposits and investments fluctuates depending primarily on the timing of real estate tax receipts, proceeds from borrowings, collection of state and federal aid and capital outlays throughout the year.

### (6) Property Taxes

Real and personal property taxes are based on values assessed as of each January 1. By law, all taxable property must be assessed at 100% of fair cash value. Also by law, property taxes must be levied at least 30 days prior to their due date. Once levied, these taxes are recorded as receivables, net of estimated uncollectible balances. Property tax revenues have been recorded using the modified accrual basis of accounting, described in note 2.

The City bills and collects its property taxes on a quarterly basis following the January 1 assessment. The due dates for those quarterly tax billings are August 1, November 1, February 1, and May 1. Property taxes that remain unpaid after the respective due dates are subject to penalties and interest charges.

Based on the City's experience, most property taxes are collected during the year in which they are assessed. Liening of properties on which taxes remain unpaid occurs annually. On November 14, all properties with unpaid fiscal 2001 property taxes were lienied. The City ultimately has the right to foreclose on all properties where the taxes remain unpaid.

A statewide property tax limitation known as "Proposition 2-1/2" limits the amount of increase in the property tax levy in any fiscal year. Generally, Proposition 2-1/2 limits the total levy to an amount not greater than 2-1/2% of the total assessed value of all taxable property within the City. Secondly, the tax

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Financial Statements

June 30, 2002

levy cannot increase by more than 2-1/2% of the prior year's levy plus the taxes on property newly added to the tax rolls. Certain provisions of Proposition 2-1/2 can be overridden by a City-wide referendum.

**(7) Receivables**

Receivables as of year end for the government's individual major funds and internal service fund, including the applicable allowances for uncollectible accounts are as follows (in thousands):

	<u>General</u>	<u>Special revenue</u>	<u>Internal service</u>	<u>Total</u>
Receivables:				
Property taxes	\$ 37,555	—	—	37,555
Other taxes	142,697	—	—	142,697
Intergovernmental	78,215	56,301	—	134,516
Other	34,849	195	151	35,195
Gross receivables	293,316	56,496	151	349,963
Less allowance for uncollectibles	(165,930)	—	—	(165,930)
Net total receivables	\$ <u>127,386</u>	<u>56,496</u>	<u>151</u>	<u>184,033</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows (in thousands):

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable (general fund)	\$ 31,507	—
Due from component units	—	18,984
Other	—	7,746
Total deferred/unearned revenue for governmental funds	\$ <u>31,507</u>	<u>26,730</u>

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Financial Statements

June 30, 2002

**(8) Capital Assets**

Capital asset activity for the year ended June 30, 2002 was as follows (in thousands):

**Primary Government**

	<b><u>Beginning balance</u></b>	<b><u>Increases</u></b>	<b><u>Decreases</u></b>	<b><u>Ending balance</u></b>
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 10,604	3,862	—	14,466
Construction in progress	284,221	117,075	—	401,296
Total capital assets not being depreciated	294,825	120,937	—	415,762
Capital assets being depreciated:				
Land improvements	15,507	—	—	15,507
Buildings and improvements	940,789	—	1,591	939,198
Furniture and equipment	109,410	10,181	2,400	117,191
Infrastructure	228,731	13,652	—	242,383
Total capital assets being depreciated	1,294,437	23,833	3,991	1,314,279
Less accumulated depreciation for:				
Land improvements	2,062	1,129	—	3,191
Buildings and improvements	747,281	19,590	1,591	765,280
Furniture and equipment	92,997	9,346	2,400	99,943
Infrastructure	71,977	7,708	—	79,685
Total accumulated depreciation	914,317	37,773	3,991	948,099
Total capital assets being depreciated, net	380,120	(13,940)	—	366,180
Governmental activities capital assets, net	\$ 674,945	106,997	—	781,942

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Financial Statements

June 30, 2002

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 347
Human Services	57
Public safety	7,625
Public works, including depreciation of general infrastructure assets	9,152
Property and Development	932
Parks and recreation	2,017
Library	4,156
Schools	13,214
County	<u>273</u>
Total depreciation expense – governmental activities	\$ <u><u>37,773</u></u>

**(9) Interfund Receivable and Payable Balances**

Individual fund and discrete component unit receivable and payable balances at June 30, 2002, are as follows (in thousands):

<u>Interfund balances</u>	<u>Receivable</u>	<u>Payable</u>
General	\$ —	727
Internal service	<u>727</u>	<u>—</u>
Balance at June 30, 2002	727	727
SBRS at December 31, 2001	<u>64,871</u>	<u>—</u>
Balances in accompanying basic financial statements	\$ <u><u>65,598</u></u>	<u><u>727</u></u>
 <u>Discrete component unit balances</u>	<u>Receivable</u>	<u>Payable</u>
Primary government:		
General	\$ 19,250	108
Hospital revenue bond	129,103	—
Discretely presented component units:		
PHC	<u>108</u>	<u>148,353</u>
Balances in accompanying basic financial statements	\$ <u><u>148,461</u></u>	<u><u>148,461</u></u>

# CITY OF BOSTON, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2002

### (10) Long-Term Obligations

#### (a) Governmental Activity Obligations

Following is a summary of the governmental long-term obligations of the City as of June 30, 2002 (in thousands):

	Interest rates	Outstanding, beginning of year	Additions	Reductions	Outstanding, end of year	Due within one year
Bonds and notes payable:						
General obligation bonds dated 2/1/02	3.00-5.0%	\$ —	100,000	—	100,000	6,090
General obligation refunding bonds dated 4/11/01	3.63-5.0%	52,025	—	—	52,025	500
General obligation bonds dated 2/1/01	4.25-5.0%	120,000	—	8,360	111,640	8,360
General obligation bonds dated 2/1/00	5.0-5.75%	110,160	—	9,840	100,320	9,840
General obligation bonds dated 10/15/98	3.25-5.0%	104,580	—	7,710	96,870	7,710
General obligation refunding bonds dated 4/15/98	4.5-5.25%	63,290	—	6,480	56,810	1,384
General obligation bonds dated 1/15/98	4.5%	67,210	—	7,595	59,615	7,595
General obligation bonds dated 11/15/96	5.0%	61,200	—	7,200	54,000	5,400
General obligation bonds dated 10/15/95	5.0-5.25%	23,000	—	3,100	19,900	3,100
General obligation bonds dated 9/1/94	5.0-6.0%	23,515	—	4,305	19,210	4,530
General obligation refunding bonds dated 2/1/94	4.0-5.0%	60,855	—	5,300	55,555	5,920
General obligation bonds dated 9/1/93	4.0-4.875%	37,655	—	2,090	35,565	2,190
General obligation refunding bonds dated 2/1/93	3.0-5.65%	72,720	—	11,960	60,760	15,665
General obligation bonds dated 2/15/92	4.75-6.5%	6,210	—	3,015	3,195	3,195
General obligation refunding bonds dated 5/15/91	5.5-10.0%	8,515	—	4,515	4,000	4,000
MWPAT note payable	4.25-5.75%	9,750	—	439	9,311	444
Notes payable	5.44-7.18%	27,620	3,839	491	30,968	2,153
Bond Anticipation Notes dated 2/1/02	3.5%	—	62,000	—	62,000	—
Bond Anticipation Notes dated 2/1/01	4.0%	25,000	—	—	25,000	25,000
Total governmental obligation bonds and notes payable		873,305	165,839	82,400	956,744	113,076
Other long-term obligations:						
Leases		27,907	8,915	10,786	26,036	8,319
Judgments and claims		22,450	31,041	21,041	32,450	10,000
Compensated absences, net		152,087	17,090	—	169,177	54,655
Landfill postclosure care costs		16,533	—	1,662	14,871	—
Total other long-term obligations		218,977	57,046	33,489	242,534	72,974
Total governmental long-term obligations		\$ 1,092,282	222,885	115,889	1,199,278	186,050



# CITY OF BOSTON, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2002

### (b) *Business Type Activity Obligations*

Following is a summary of the business type long-term obligations of the City as of June 30, 2002 (in thousands):

	<u>Interest rates</u>	<u>Outstanding, beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding, end of year</u>	<u>Due within one year</u>
Convention Center Fund:						
Special Obligation Bonds dated 4/1/02	4.0-5.25%	\$ —	116,890	—	116,890	2,100
Bond Anticipation Notes dated 2/1/00	5.25%	27,800	—	27,800	—	—
Bond Anticipation Notes dated 5/1/99	4.0%	130,000	—	130,000	—	—
Hospital Bond Fund:						
Revenue Refunding Bonds, Boston City Hospital, Series B, dated 6/1/93	3.60-5.25%	145,580	—	4,485	141,095	4,735
Total business type obligations		\$ <u>303,380</u>	<u>116,890</u>	<u>162,285</u>	<u>257,985</u>	<u>6,835</u>

# CITY OF BOSTON, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2002

### A. General Obligation Bonds and Notes

The annual debt service requirements of the City's general obligation governmental bonds and notes payable outstanding as of June 30, 2002, are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2003	\$ 113,076	42,840	155,916
2004	84,265	38,579	122,844
2005	78,265	34,790	113,055
2006	126,816	29,437	156,253
2007	63,195	25,949	89,144
2008-2012	262,443	88,595	351,038
2013-2017	167,177	35,062	202,239
2018-2022	61,507	6,794	68,301
	<u>\$ 956,744</u>	<u>302,046</u>	<u>1,258,790</u>

General obligation bonds are backed by the full faith and credit of the City. The Commonwealth has approved school construction assistance, subject to annual appropriation by the state legislature and reports filed with the Commonwealth by the City, to partially provide resources for future principal and interest requirements on general obligation school bonds of the City. As of June 30, 2002, such resources expected to be provided to the City total approximately \$217,638 from the Commonwealth.

On February 15, 2002, the City issued \$100,000,000 in general obligation bonds to fund various capital purchases and improvements throughout the City. Interest is due semiannually on each February 1 and August 1, with principal payments due each February 1 until maturity in fiscal 2022.

On February 1, 2002, the City issued \$62,000,000 in bond anticipation notes (BANs) to fund various school projects. The City will pay interest of approximately \$6,510,000 through fiscal 2006. The City is expected to issue general obligation bonds to refund the BANs; accordingly, they have been classified as long-term obligations.

As of June 30, 2002, the City has a permanent loan agreement with the Massachusetts Water Pollution Abatement Trust (MWPAT) for \$13.4 million. The loan provides funding for the closure and postclosure care costs relating to the City's Gardner Street Landfill. Proceeds are received on a reimbursement basis from MWPAT as expenditures are incurred by the City. As of June 30, 2002, the City has received approximately \$12.3 million in loan proceeds.

#### ***No Obligation Debt***

The City has outstanding industrial, commercial and housing development bonds payable solely from revenues of the respective enterprises that do not constitute an indebtedness of the City and are not a charge against its general credit. This aggregate amount is immaterial to the financial statements.

## CITY OF BOSTON, MASSACHUSETTS

### Notes to Financial Statements

June 30, 2002

The City is subject to a dual general debt limit: the normal debt limit and the double debt limit. Such limits are equal to 2-1/2% and 5%, respectively, of the valuation of taxable property in the City as last equalized by the State Department of Revenue. Debt may be authorized up to the normal debt limit without state approval. Authorizations under the double debt limit, however, require the approval of the Commonwealth's Emergency Finance Board. Additionally, there are many categories of general obligation debt which are exempt from the debt limit but are subject to other limitations.

As of June 30, 2002, the City may issue \$287.9 million of additional general obligation debt under the debt limit. General obligation debt of \$373 million, subject to the debt limit, and \$260 million, exempt from the debt limit, is authorized but unissued as of June 30, 2002.

#### *Proprietary Fund Obligations*

The annual debt service requirements of the City's special obligation bonds and Boston City Hospital, Series B, revenue bonds, outstanding as of June 30, 2002 are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2003	\$ 6,835	13,939	20,774
2004	7,295	13,347	20,642
2005	8,045	12,957	21,002
2006	5,655	12,523	18,178
2007	3,070	12,294	15,364
2008-2012	28,790	56,488	85,278
2013-2017	59,165	43,065	102,230
2018-2022	28,050	34,937	62,987
2023-2027	111,080	9,873	120,953
	<u>\$ 257,985</u>	<u>209,423</u>	<u>467,408</u>

On April 15, 2002, the City issued \$116,890,000 in special obligation bonds to fund certain costs in connection with the development of the Boston Convention and Exhibition Center. Interest is due semiannually on each May 1 and November 1, with principal payments due each May 1 until maturity in fiscal 2027.

The revenue refunding bonds of the Boston City Hospital (BCH) do not constitute general obligations of the City and the annual debt service of these bonds has been assumed by the Boston Public Health Commission. The Boston Public Health Commission expects to meet its obligation on the bonds through application of a portion of the rent payable to the Boston Public Health Commission by the Boston Medical Center Corporation (BMC) for its lease of the former Boston City Hospital. As a result of the consolidation of the BMC and BCH (see note 15), on July 1, 1996, the City received \$16.28 million, representing debt service reserve on these bonds. It was recorded as proceeds of debt in the capital projects fund and subsequently transferred to the general fund for future debt service requirements. Under certain circumstances, including a default by BMC under the lease, City revenues may be required to satisfy the debt service requirements on the Series B bonds.

# CITY OF BOSTON, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2002

The Boston Public Health Commission has assumed responsibility for paying to the City an amount equal to current debt service on all outstanding general obligation bonds of the City issued for public health and hospital purposes which amounted to \$20.7 million at June 30, 2002.

### *Defeased Debt*

The following prior year transactions met the requirements of an in-substance defeasance:

- On April 11, 2001, the City issued \$52.0 million in general obligation refunding bonds to advance refund \$49.9 million of 1991, 1994, and 1995 Series Bonds.
- On May 12, 1998, the City issued \$77.9 million in general obligation bonds, dated April 15, 1998, of which \$62.9 million was used to advance refund \$58.0 million of 1989, 1990, 1992 and 1994 Series Bonds.

The principal amount of debt refunded through in-substance defeasance transactions and still outstanding at June 30, 2002 was approximately \$48 million.

### *Subsequent Event*

- In August 2002, \$127.8 million of bonds were issued to refund the Boston City Hospital, Series B Bonds dated June 1, 1993.

## **B. Lease Obligations**

The City has entered into various capital lease agreements for equipment acquisition. Payments under these agreements are subject to annual appropriation and, by statute, are not included in the City's debt limit calculations. Activity in capital lease agreements during fiscal year 2002 was as follows (in thousands):

<b>Date of issuance</b>	<b>Outstanding, beginning of year</b>	<b>Additions</b>	<b>Reductions</b>	<b>Outstanding, end of year</b>
August 15, 1995	\$ 131	—	131	—
December 17, 1997	541	—	481	60
November 10, 1997	582	—	416	166
June 25, 1998	2,113	—	672	1,441
August 25, 1998	3,375	—	1,117	2,258
March 18, 1999	1,714	—	1,031	683
October 1, 1999	3,745	—	636	3,109
January 25, 2000	4,635	—	1,994	2,641
November 21, 2000	10,481	—	2,832	7,649
May 21, 2001	590	—	200	390
October 31, 2001	—	7,290	1,276	6,014
June 5, 2002	—	1,625	—	1,625
	<u>\$ 27,907</u>	<u>8,915</u>	<u>10,786</u>	<u>26,036</u>

# CITY OF BOSTON, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2002

Future minimum payments under capital leases and installment sales as of June 30, 2002 are as follows (in thousands):

2003	\$ 10,875
2004	8,280
2005	4,724
2006	2,462
2007	1,250
2008-2011	<u>485</u>
Total minimum lease payments	28,076
Less amount representing interest	<u>(2,040)</u>
	26,036
Current portion	<u>(8,319)</u>
Long-term portion	<u>\$ 17,717</u>

The City's commitment under operating leases is not significant.

### (11) Retirement Plans

#### (a) Plan Description

The City contributes to the State-Boston Retirement System (the System), a cost-sharing multiple-employer defined benefit pension plan. The System provides retirement, disability and death benefits to plan members and beneficiaries of the following government units:

- (1) City of Boston
- (2) Boston Redevelopment Authority
- (3) Boston Housing Authority
- (4) Boston Water & Sewer Commission
- (5) Public Health Commission
- (6) Sheriff of Suffolk County

Chapter 32 of the Massachusetts General Laws (MGL) assigns authority to establish and amend benefit provisions of the plan to the state legislature.

The System is administered by a five-person Board of Retirement consisting of the City Auditor who serves as a member *ex officio*, two members who are elected by the participants, in or retired from the service of the System, a fourth member appointed by the Mayor and a fifth member chosen by the other members.

The City also participates in the Boston Retirement System (BRS) and made benefit payments of approximately \$4.1 million for the year ended June 30, 2002. The number of BRS plan participants was frozen in 1946. The financial statements of BRS are combined with the System's, however, disclosures for BRS are not material and, thus, are not presented separately.

# CITY OF BOSTON, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2002

### (b) *Basis of Accounting*

The System's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Investments of the System are stated as follows:

- (a) Bonds are stated at quoted market value.
- (b) Equity securities are stated at quoted market value.
- (c) Real estate funds are stated at appraised value or partner's account value, whichever is more readily determinable.
- (d) Venture capital funds are stated at contributed cost or fair market value, whichever is more readily determinable.
- (e) International investments are stated at quoted market value and are included in equities and fixed income categories.
- (f) Cash is stated at carrying amount which is reconciled book balance.

### (c) *Membership*

Membership in the System consisted of the following at December 31, 2001, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	13,144
Terminated plan members entitled to but not receiving benefits	3,560
Active plan members	21,122
	<hr/>
Total membership	37,826
	<hr/>
Total number of participating employers	6
	<hr/>

### (d) *Contributions*

Plan members are required to contribute to the System. Depending on their employment date, active members must contribute a range of 5%-9% of their regular gross compensation. Members hired after December 31, 1978 must contribute an additional 2% of regular compensation in excess of \$30,000. Participating employers are required to pay into the System their share of the remaining system-wide actuarially determined contribution, which is apportioned among the employers based on active covered payroll. The Commonwealth of Massachusetts (the Commonwealth) reimburses the City for benefits paid to school teachers. The Commonwealth also reimbursed the System for a portion of benefit payments for cost of living increases granted before July 1, 1998. The contributions of plan members and the participating employers are governed by Chapter 32 of the MGL. The City's required and actual contributions to the System for the years ended June 30, 2002, 2001 and 2000 were \$130 million, \$127 million, and \$129 million, or \$85 million, \$88 million, and \$90 million, net of teachers' retirement, respectively.

# CITY OF BOSTON, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2002

During the fall of 1997 the System's Retirement Board, the City Council and the Mayor approved the option for local funding of cost of living adjustments. As a result, a locally funded cost of living adjustment of 3.0% on the first \$12,000 of a retiree's annual payment was awarded in fiscal 2000 and fiscal 2001. These cost of living adjustments will be awarded by the Retirement Board each year, except in years in which the Retirement Board determines that such an adjustment would substantially impair the funding schedule.

### (e) *Legally Required Reserve Accounts*

The balances in the System's legally required reserves (on the statutory basis of accounting) at December 31, 2001 are as follows (in thousands):

Description	Amount	Purpose
Annuity savings fund	\$ 995,817	Active members' contribution balance
Annuity reserve fund	261,387	Retired members' contribution account
Military service credit	60	Members' contribution account while on military leave
Pension reserve fund	919,300	Amounts appropriated to fund future retirement benefits
Pension fund	804,318	Remaining net assets
	<u>\$ 2,980,882</u>	

All reserve accounts are funded at levels required by State statute.

### (f) *Investment Concentration*

The System had the following investments not issued or guaranteed by the US Government which represented over 5% each of the System's net assets at December 31 (in thousands):

	2001	2000
State Street Global Advisors S&P 500 Flagship Series A (domestic equity income fund)	\$ <u>433,112</u>	<u>491,635</u>
Enhanced Core (fixed income fund)	<u>—</u>	<u>170,870</u>

### (g) *Securities Lending*

The Public Employment Retirement Administration Commission of Massachusetts (PERAC) has issued supplemental regulations that permit the System to engage in securities lending transactions. These transactions are conducted by the System's custodian, which lends certain securities owned by the System to other broker-dealers and banks pursuant to a form of loan agreement. The System and the borrowers maintain the right to terminate all securities lending transactions on demand.

At the System's direction, the custodian lends the System's securities and receives cash (including both US and foreign currency), US government securities, sovereign debt of foreign countries, and irrevocable bank letters of credit as collateral. The custodian does not have the ability to pledge or sell

# CITY OF BOSTON, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2002

collateral unless the borrower defaults. Borrowers are required to deliver cash collateral in amounts equal to not less than 100% of the market value of the loaned securities.

The System does not impose any restrictions on the amount of securities lent on its behalf by the custodian. There were no failures by any borrowers to return loaned securities or pay distributions thereon, and there were no losses from a default of the borrowers or the custodian for the years ended December 31, 2001 and 2000. The cash collateral received by the custodian on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. The relationship between the average maturities of the investment pool and loans was affected by the maturities of the loans made by other plans that invested cash collateral in the collective investment pool, which the System could not determine. At December 31, 2001 and 2000, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts owed to the System. Borrower rebates and fees paid to the custodian during the years ended December 31, 2001 and 2000 were \$8,445,000 and \$14,434,000, respectively.

At December 31, 2001 and 2000, the fair value of securities loaned by the System amounted to \$173,469,000 and \$248,195,000, respectively, against which was held collateral of \$180,010,000 and \$258,606,000, respectively, as follows (in thousands):

		<b>December 31</b>	
		<b>2001</b>	<b>2000</b>
Short-term collateral investment pool	\$	174,424	252,563
Non-cash collateral		5,586	3,164
Total	\$	<u>180,010</u>	<u>255,727</u>

### (12) Other Postemployment Benefit Disclosures

In addition to the pension benefits described in note 11, the City provides postemployment health care and life insurance benefits, in accordance with state statute and City ordinance, to eligible retirees. Approximately 12,600 retirees meet the eligibility requirements as put forth in Chapter 32B of Massachusetts General Laws. The City pays 75% of Blue Cross/Blue Shield of Massachusetts (BC/BS) premiums and 90% of HMO premiums for medical and hospitalization incurred by retirees and their dependents. The City also pays 75% of BC/BS Medicare premiums for each Medicare eligible retiree. The City provides for 50% of the premiums for \$5,000 of life insurance for each eligible retiree.

Expenditures of approximately \$45 million for health care and life insurance benefits for retirees are accounted for on a pay-as-you-go basis in fiscal 2002.



# CITY OF BOSTON, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2002

### (13) Operating Transfers

Operating transfers and their purposes during the year ended June 30, 2002 were as follows (in thousands):

	<u>Governmental funds</u>	<u>Trust funds</u>
	<u>General</u>	<u>Permanent</u>
Primary government:		
Trust funds – support for parks department	\$ <u>1,778</u>	<u>(1,778)</u>

### (14) Excess of Expenditures Over Budgets

The City had expenditures in excess of their budgeted amounts for the year ended June 30, 2002 in the following categories (in thousands):

General government:	
Collective bargaining	\$ 5,785
Public safety:	
Fire Department	2,527
Public works:	
Property management	994
Judgment and claims:	
Execution of courts	900
Employee benefits:	
Medicare payments	452
Workers' compensation	358
State and district assessments	258
	<u>\$ 11,274</u>

The excess expenditures reported above are allowed under the budgetary laws governing the City.

### (15) Public Health System

Effective July 1, 1996, the City's Department of Health and Hospitals and Trustees of Health and Hospitals, a component unit, were abolished. Substantially all their assets and liabilities, including title to the City's two hospitals, Boston City Hospital (BCH) and Boston Specialty and Rehabilitation Hospital (BSRH), were transferred to and assumed by the Boston Public Health Commission (PHC).

Also effective July 1, 1996, the operations of BCH and BSRH were consolidated with the operations of the Boston University Medical Center under the licensure and control of the Boston Medical Center Corporation (BMC).

The PHC receives the majority of its funding from federal and state grants, lease agreements with BMC and a City appropriation. During fiscal 2002, the City appropriated \$64.7 million to the PHC. As described below, the PHC uses the appropriation to pay debt service on certain general obligation bonds, base

## CITY OF BOSTON, MASSACHUSETTS

### Notes to Financial Statements

June 30, 2002

assistance grant payments to BMC and a portion of the consolidation costs to BMC. The remainder of the appropriation is used for administrative purposes and to support the various public health programs run by the PHC. The City has budgeted \$63.9 million for the PHC for fiscal 2003.

#### *Due from PHC/BMC*

On July 1, 1996, the PHC assumed a liability of \$149.8 million for a mortgage note (the Note) held by a trustee and insured by the Federal Housing Authority (FHA), the balance of which is \$129.1 million at June 30, 2002. Payments made by the PHC on this Note are used, together with other funds held in trust, by the trustee to pay off the outstanding balance of \$141.1 million of the City's revenue refunding bonds dated June 1, 1993. The PHC receives funding for these Note payments from the BMC under a lease agreement whereby the BMC leases portions of the former BCH for an initial period of 50 years. Rental payments received under this lease are equal to the debt service costs on the Note and on all City general obligation bonds allocable to BCH. These general obligation bonds were issued by the City between December 1967 and October 1995 and total \$18.9 million at June 30, 2002. These bonds pertain to the property and operations of the BCH Campus, South Block Campus, BSRH Campus, Emergency Medical Services Operations and the Long Island Campus.

In addition, the PHC and BMC are also responsible for reimbursing the City for health insurance, equipment lease payments, workers' compensation and other miscellaneous expenses paid for by the City.

#### *Payments to BMC*

Under the terms of the consolidation agreement, the PHC is obligated to pay BMC \$1.0 million per year for five (5) years, beginning on July 1, 1996, to subsidize the costs of consolidation. If after 5 years, total consolidation costs total less than \$10.0 million, the PHC is entitled to a rebate in an amount that will bring the PHC's share of these costs to 50%. The fiscal year 2001 payment to BMC represents the final payment under the terms of the consolidation agreement and it is expected BMC will provide documentation of the consolidated costs as part of their year-end process.

PHC is obligated to make future base assistance grant payments to BMC totaling \$12.0 million each year until the FHA Note has been paid off (scheduled in 2020).

In addition, during fiscal 1997, the City made \$20.0 million in contributions to a capital fund in support of the Boston HealthNet health center members. The BMC is expected to provide \$2.0 million in each of the six (6) years following the consolidation in additional support to the Boston HealthNet health center members.

## **(16) Risk Management**

The City is self insured for general liability, property and casualty (except for boiler and machinery losses up to \$2.5 million), worker injury, unemployment and certain employee health claims. The City's Corporation Counsel defends the City in any lawsuits that arise from the normal course of operations, with exposure limited by a state tort cap under Chapter 258 of the Massachusetts General Laws. Except for certain health care costs described below, judgments and claims are charged to the general fund.

The City's health insurance program, administered by the Health Insurance and Benefits Division, a program within Human Resources, provides coverage to the City's employees and retirees through a number of Health Maintenance Organizations (HMO) and Blue Cross/Blue Shield of Massachusetts (BC/BS). Costs to

# CITY OF BOSTON, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2002

the City for the HMOs, of which 10% is paid by employees, are accounted for in the general fund and are capped at a defined premium payment per employee.

BC/BS acts as a third-party agent for the City in the payment of the various claim plans used by the City. Costs incurred for the operation of the BC/BS plans, of which 25% is paid by employees, are accounted for in a separate health insurance internal service fund.

The City has implemented a comprehensive risk financing strategy that includes establishing a catastrophic risk reserve, currently with a \$5.9 million balance available for future losses. The City has also improved systems for maximizing the receipt of federal disaster funds. On July 1, 2001, the City's property insurance policy went into effect – a one-year, all-risk catastrophic policy covering all City property assets up to \$400 million, after a \$10 million retention. Any boiler and machinery-related property loss is additionally insured, after a \$50,000 deductible, for up to \$2.5 million.

The City has established a liability based on historical trends of previous years and attorney's estimates of pending matters and lawsuits in which the City is involved. Changes in the self-insurance liability for the fiscal years ended June 30, 2002 and 2001 are as follows (in thousands):

<b>Internal service fund</b>		
	<b>2002</b>	<b>2001</b>
Health and life claims, beginning of year	\$ 10,000	11,202
Incurred claims	61,818	59,052
Payments of claims attributable to events of both the current and prior fiscal years:		
Health and life	(64,767)	(60,254)
Health and life claims, end of year	\$ 7,051	10,000

<b>Governmentwide statements</b>		
	<b>2002</b>	<b>2001</b>
Judgments and claims, beginning of year	\$ 22,450	20,174
Incurred claims	36,041	17,610
Payments of claims attributable to events of both the current and prior fiscal years:		
Workers' compensation	(13,756)	(11,595)
Unemployment compensation	(2,285)	(1,731)
Court judgments	(10,000)	(2,008)
Judgments and claims, end of year	\$ 32,450	22,450

The liabilities above have not been discounted to their present value. Incurred claims represent the total of a provision for events of the current fiscal year and any change in the provision for events of the prior fiscal years.

# CITY OF BOSTON, MASSACHUSETTS

## Notes to Financial Statements

June 30, 2002

There are numerous pending matters and lawsuits in which the City is involved. The City attorneys estimate that the potential claims against the City not recorded in the accompanying basic financial statements resulting from such litigation would not materially affect the basic financial statements.

### (17) Discretely Presented Component Units

The following presents condensed financial statements for each of the discretely presented component units:

#### Condensed Statement of Net Assets

June 30, 2002

(In thousands)

	<u>PHC</u>	<u>BRA</u>	<u>TPL</u>	<u>EDIC</u>	<u>Total</u>
<b>Assets:</b>					
Cash and investments:	\$ 33,551	28,035	51,499	20,980	134,065
Cash and investments held by trustee	—	1,071	2,070	7,456	10,597
Receivables, net:					
Other	7,885	60,481	2,493	21,577	92,436
Internal balances	—	—	—	—	—
Other assets	135,321	27,091	1,768	453	164,633
Capital assets:					
Nondepreciable	17,500	3,476	—	4,030	25,006
Depreciable	4,374	1,777	987	19,868	27,006
Due from other funds	7,069	—	—	—	7,069
Due from primary government	108	—	—	—	108
<b>Total assets</b>	<u>205,808</u>	<u>121,931</u>	<u>58,817</u>	<u>74,364</u>	<u>460,920</u>
<b>Liabilities:</b>					
Warrants and accounts payable	10,996	69,905	2,320	14,215	97,436
Accrued Liabilities:					
Other	739	—	11	2,271	3,021
Due to other funds	14,059	—	—	—	14,059
Due to primary government	148,353	—	—	—	148,353
Deferred revenue	4,140	32,807	—	9,445	46,392
Noncurrent liabilities:					
Due within one year	—	—	—	859	859
Due in more than one year	—	1,475	—	20,153	21,628
Other	2,601	6,982	—	1,187	10,770
<b>Total liabilities</b>	<u>180,888</u>	<u>111,169</u>	<u>2,331</u>	<u>48,130</u>	<u>342,518</u>
<b>Net assets:</b>					
Invested in capital assets, net of related debt	14,736	3,778	987	9,838	29,339
Restricted	5,170	1,071	38,187	12,541	56,969
Unrestricted	5,014	5,913	17,312	3,855	32,094
<b>Total net assets</b>	<u>\$ 24,920</u>	<u>10,762</u>	<u>56,486</u>	<u>26,234</u>	<u>118,402</u>

**CITY OF BOSTON, MASSACHUSETTS**

Notes to Financial Statements

June 30, 2002

Condensed Statement of Revenues, Expenses and Changes in Net Assets

Year ended June 30, 2002

(In thousands)

	<u>PHC</u>	<u>BRA</u>	<u>TPL</u>	<u>EDIC</u>	<u>Total</u>
Operating revenues	\$ 64,221	25,212	8,479	34,608	132,520
City appropriation	<u>64,537</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>64,537</u>
Total revenues	128,758	25,212	8,479	34,608	197,057
Operating expenditures	<u>104,900</u>	<u>26,234</u>	<u>13,956</u>	<u>33,213</u>	<u>178,303</u>
Excess of revenues over (under) expenditures	23,858	(1,022)	(5,477)	1,395	18,754
Nonoperating revenue	692	—	—	—	692
Nonoperating expenditures	(12,000)	—	—	—	(12,000)
Interest expense	(9,855)	—	—	—	(9,855)
Interest income	<u>1,199</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,199</u>
Net change in net assets	3,894	(1,022)	(5,477)	1,395	(1,210)
Net assets, beginning of year	<u>21,026</u>	<u>11,784</u>	<u>61,963</u>	<u>24,839</u>	<u>119,612</u>
Net assets, end of year	<u>\$ 24,920</u>	<u>10,762</u>	<u>56,486</u>	<u>26,234</u>	<u>118,402</u>

**CITY OF BOSTON, MASSACHUSETTS**  
**State-Boston Retirement System**

Required Supplementary Information  
(Unaudited)

(Dollar amounts in thousands)

Schedule of Funding Progress

<b>Actuarial valuation date</b>	<b>Actuarial value of assets (a)</b>	<b>Actuarial accrued liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b - a)</b>	<b>Funded ratio (a/b)</b>	<b>Covered payroll (c)</b>	<b>UAAL as a percentage of covered payroll ((b-a)/c)</b>
01/01/02	\$ 3,376,000	4,861,000	1,485,000	69.5%	\$ 1,057,000	140.5%
01/01/01	3,212,000	4,257,000	1,045,000	75.5%	990,000	105.6%
01/01/00	2,980,000	4,101,000	1,121,000	72.7%	943,000	118.9%
01/01/99	2,772,000	3,793,000	1,021,000	73.1%	803,000	127.1%
01/01/98	2,411,000	3,614,000 <sup>(1)</sup>	1,203,000	66.7%	768,000	156.6%
01/01/97	2,062,000	3,173,000	1,111,000	65.0%	735,000	151.2%
01/01/96	1,834,000	2,940,000	1,106,000	62.4%	777,000	142.3%

<sup>(1)</sup> Future cost of living increases assumed by the City.

Schedule of Employers' Contributions

	<b>Annual required contribution</b>	<b>Percentage contributed</b>
Year ended December 31:		
2001	\$ 149,820	100%
2000	143,944	100
1999	147,138	100
1998	137,866	100
1997	133,524	100
1996	125,980	100

Notes to Schedules

Additional information as of the latest actuarial valuation follows:

Valuation date	January 1, 2002
Actuarial cost method	Individual entry age normal
Amortization method	Payment increase at 3.5% per year
Remaining amortization period	18 years (for original unfunded)
Asset valuation method	Five-year smoothing of investment returns greater (less) than expected
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	5.5%
Inflation rate	5.0%
Cost-of-living adjustments	3.0% on first \$12,000 of retirement income

## **APPENDIX B**

### **Schedules of Comparative Financial Statements for Fiscal Years 2002 - 1998**

The following schedules of Comparative Balance Sheets and Statements of Revenues, Expenditures, Operating Transfers and Fund Equity for the fiscal years ended June 30, 2002, 2001, 2000, 1999 and 1998 have been prepared by the City of Boston Auditing Department based on information taken from the City's audited financial statements.

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**City of Boston**

**General Fund**

**BALANCE SHEETS**  
**June 30, 2002, 2001, 2000, 1999 and 1998**  
(in thousands)

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
<b>ASSETS</b>					
Cash and investments.....	\$ 482,419	\$ 415,294	\$ 318,677	\$ 311,064	\$ 268,056
Restricted cash and investments.....	16,008	16,280	16,280	16,280	16,280
Receivables (net, where applicable, of allowances for estimated uncollectible amounts):					
Property taxes.....	37,555	78,421	80,366	94,099	97,162
Motor vehicle excise.....	56,456	9,498	8,674	6,844	8,169
Intergovernmental.....	78,215	70,253	50,119	39,000	35,000
Departmental and other.....	11,616	2,621	2,033	8,991	3,138
Total receivables.....	<u>183,842</u>	<u>160,793</u>	<u>141,192</u>	<u>148,934</u>	<u>143,469</u>
Due from other funds.....	-	60,628	86,536	66,931	64,451
Due from component units.....	19,250	157,200	163,859	171,642	178,553
Total assets.....	<u>\$ 701,519</u>	<u>\$ 810,195</u>	<u>\$ 726,544</u>	<u>\$ 714,851</u>	<u>\$ 670,809</u>
<b>LIABILITIES</b>					
Warrants and accounts payable.....	\$ 41,940	\$ 107,471	\$ 94,984	\$ 84,037	\$ 90,023
Accrued liabilities:					
Tax abatement refunds.....	25,022	90,600	89,555	98,000	98,000
Judgements and claims.....	10,000	-	-	-	-
Compensated absences.....	20,000	17,000	-	-	-
Other.....	86,499	69,660	62,845	81,575	54,889
Due to other funds.....	727	4,420	11,508	9,987	2,464
Due to component units.....	108	-	-	-	2,696
Matured interest and bonds payable.....	421	438	457	458	580
Deferred revenue.....	58,237	254,146	246,495	264,135	279,313
Total liabilities.....	<u>\$ 242,954</u>	<u>\$ 543,735</u>	<u>\$ 505,844</u>	<u>\$ 538,192</u>	<u>\$ 527,965</u>
<b>FUND BALANCES AND OTHER CREDITS</b>					
Reserved for:					
Encumbrances.....	20,262	38,169	41,157	33,880	24,774
Debt Service.....	-	16,280	16,280	16,280	16,280
Unreserved:					
Designated for subsequent year.....	36,000	30,000	-	-	-
Undesignated.....	345,847	182,011	163,263	126,499	101,790
Total fund balance.....	<u>402,109</u>	<u>266,460</u>	<u>220,700</u>	<u>176,659</u>	<u>142,844</u>
Total liabilities and fund balance.....	<u>\$ 645,063</u>	<u>\$ 810,195</u>	<u>\$ 726,544</u>	<u>\$ 714,851</u>	<u>\$ 670,809</u>

**City of Boston**

**General Fund**

**Statement of Revenues, Expenditures, Other Financing  
Sources (Uses) and Changes in Fund Balance  
Fiscal Years Ending June 30, 2002, 2001, 2000, 1999 and 1998  
Partially Restated for Comparative Purposes  
(in thousands)**

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
<b>REVENUES:</b>					
Local:					
Real and personal property taxes, net.....	\$ 990,848	\$ 874,868	\$ 869,295	\$ 792,569	\$ 754,561
Excises.....	111,114	72,645	68,656	68,238	67,241
Payments in lieu of taxes.....	36,332	72,720	56,423	63,022	56,224
Fines.....	60,601	57,840	57,709	47,693	46,292
Investment income.....	14,596	26,289	19,255	17,884	18,526
Licenses and permits.....	33,325	36,795	28,892	24,010	21,833
Departmental and other revenue.....	62,200	58,306	45,490	56,415	50,241
Total local revenues.....	<u>1,309,016</u>	<u>1,199,463</u>	<u>1,145,720</u>	<u>1,069,831</u>	<u>1,014,918</u>
Intergovernmental:					
Commonwealth of Massachusetts.....	492,299	493,278	475,813	456,958	414,778
Total intergovernmental revenues.....	<u>492,299</u>	<u>493,278</u>	<u>475,813</u>	<u>456,958</u>	<u>414,778</u>
Total revenues.....	<u>1,801,315</u>	<u>1,692,741</u>	<u>1,621,533</u>	<u>1,526,789</u>	<u>1,429,696</u>
<b>EXPENDITURES:</b>					
Current:					
General government.....	77,019	67,913	65,132	54,283	43,850
Human services.....	6,434	5,464	4,916	4,969	4,717
Public safety.....	405,844	373,362	358,855	353,118	322,190
Public works.....	74,651	77,241	69,689	70,019	60,163
Property and development.....	48,774	41,300	35,230	31,805	31,934
Parks and recreation.....	16,230	15,547	13,700	13,216	11,783
Library.....	28,695	30,360	27,792	27,441	24,468
Schools.....	627,653	611,368	578,583	537,585	505,795
Public Health Programs <sup>(1)</sup> .....	64,537	-	-	-	-
County.....	4,537	6,030	5,861	7,362	8,267
Judgments and claims.....	2,724	5,011	6,911	7,585	7,911
Other employee benefits.....	107,701	90,501	86,221	84,493	76,279
Retirement costs.....	82,034	84,970	96,019	83,341	75,382
State and district assessments.....	67,769	66,788	66,995	65,569	64,187
Debt Service.....	115,366	123,977	114,486	111,683	102,445
Capital outlays.....	5,177	4,057	5,868	7,081	6,403
Total expenditures.....	<u>1,735,145</u>	<u>1,603,889</u>	<u>1,536,258</u>	<u>1,459,550</u>	<u>1,345,774</u>
Excess of revenues over expenditures.....	<u>66,170</u>	<u>88,852</u>	<u>85,275</u>	<u>67,239</u>	<u>83,922</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Operating transfers in.....	1,778	19,384	19,662	20,916	19,751
Operating transfers out.....	-	(62,476)	(60,896)	(54,340)	(66,678)
Total other financing uses, net.....	<u>1,778</u>	<u>(43,092)</u>	<u>(41,234)</u>	<u>(33,424)</u>	<u>(46,927)</u>
Excess of revenues and other financing sources over expenditures and other financing uses.....	<u>67,948</u>	<u>45,760</u>	<u>44,041</u>	<u>33,815</u>	<u>36,995</u>
Fund balance, beginning of year, as previously reported .....	266,460	220,700	176,659	142,844	105,849
Cumulative change in accounting principle.....	<u>67,701</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, beginning of year, as restated .....	<u>334,161</u>	<u>220,700</u>	<u>176,659</u>	<u>142,844</u>	<u>105,849</u>
Fund balance, end of year.....	<u>\$ 402,109.00</u>	<u>\$ 266,460.00</u>	<u>\$ 220,700</u>	<u>\$ 176,659</u>	<u>\$ 142,844</u>

<sup>(1)</sup>Beginning in fiscal year 2002, Public Health Programs is being shown separately to comply with GASB Statement #34 requirements.

**City of Boston**

**General Fund - Budgetary Basis**

**Statement of Revenues, Transfers, Available Funds, Expenditures,  
Encumbrances and Prior Years' Deficit Raised - Budget to Actual  
Fiscal Years Ending June 30, 2002, 2001, 2000, 1999 and 1998  
Partially Restated for Comparative Purposes  
(in thousands)**

	<u>2002</u>	Variance	<u>2001</u>	Variance	<u>2000</u>	Variance	<u>1999</u>	Variance	<u>1998</u>	Variance
	Actual	Fav. (Unfav.)	Actual	Fav. (Unfav.)	Actual	Fav. (Unfav.)	Actual	Fav. (Unfav.)	Actual	Fav. (Unfav.)
<b>Revenues, Transfers and Other Available Funds:</b>										
Real and personal property taxes, net.....	\$ 926,336	\$ 399	\$ 874,013	\$ 169	\$ 824,980	\$ 454	\$ 779,656	\$ 3,068	\$ 731,872	\$ (9,051)
Motor vehicle excise.....	42,776	551	41,822	4,802	36,962	5,942	29,428	(4,093)	32,341	3,721
Other excises.....	69,528	4,133	63,651	(9,421)	59,222	(5,887)	66,229	6,392	60,485	3,948
Departmental and other revenue.....	62,193	13,862	53,100	7,210	46,096	5,843	54,137	4,411	45,431	4,963
Commonwealth of Massachusetts.....	541,456	(8,996)	525,169	952	513,681	1,078	494,623	8,585	450,011	(144)
Payments in lieu of taxes.....	36,332	7,245	39,994	8,848	29,269	(729)	35,970	1,997	29,947	(532)
Licenses and permits.....	29,651	5,836	37,824	13,459	28,652	7,924	20,897	714	23,431	8,130
Investment income.....	14,801	(749)	26,084	6,084	21,886	5,386	17,423	2,123	16,711	5,568
Fines.....	60,659	1,649	59,769	1,337	55,942	(1,935)	47,473	(1,602)	46,292	2,025
Transfers from other available funds.....	4,568	(9,086)	8,355	(17,323)	6,667	(5,969)	3,089	(8,175)	9,200	(4,300)
Sale of property.....	-	-	-	-	500	-	500	-	500	-
Total revenues, transfers and other available funds.....	<u>1,788,300</u>	<u>14,844</u>	<u>1,729,781</u>	<u>16,117</u>	<u>1,623,857</u>	<u>12,107</u>	<u>1,549,425</u>	<u>13,420</u>	<u>1,446,221</u>	<u>14,328</u>
<b>Expenditures and Encumbrances:</b>										
General government.....	70,702	(4,649)	73,696	(3,864)	65,495	1,481	64,391	370	47,027	1,270
Public safety.....	405,150	(2,388)	381,275	1,123	363,691	(1,922)	351,854	(933)	334,319	(5,734)
Public works.....	74,833	151	78,044	(6,086)	70,715	(1,546)	68,489	(3,003)	61,330	(314)
Property and development.....	41,630	(994)	53,523	246	34,968	17	32,002	503	32,259	219
Parks and recreation.....	16,071	103	15,262	122	13,944	174	13,366	166	11,976	451
Library.....	28,813	-	29,981	-	28,160	17	27,416	139	24,515	434
Human services.....	6,398	18	5,598	109	5,103	245	5,092	483	4,941	482
Schools.....	639,710	19	611,925	18	579,181	22	543,373	7	507,172	43
Public Health Commission.....	64,005	-	62,141	-	58,213	-	53,502	-	66,678	-
County.....	4,537	-	6,030	-	5,854	-	7,364	17	8,311	30
Judgments and claims.....	5,000	(900)	2,008	-	6,203	(2,103)	8,102	(3,990)	7,904	(3,793)
Other employee benefits.....	107,473	(787)	95,132	508	86,600	(548)	82,681	1	74,178	154
Retirement costs.....	135,710	-	133,775	-	134,529	-	126,554	-	111,024	20
Debt requirements.....	115,332	8	105,978	-	96,005	-	91,925	527	82,973	113
State and district assessments.....	67,769	(258)	66,788	332	66,995	257	65,569	38	64,187	(276)
Total expenditures.....	<u>1,783,133</u>	<u>(9,677)</u>	<u>1,721,156</u>	<u>(7,492)</u>	<u>1,615,656</u>	<u>(3,906)</u>	<u>1,541,680</u>	<u>(5,675)</u>	<u>1,438,794</u>	<u>(6,901)</u>
Excess of revenues available for appropriation over expenditures.....	<u>\$ 5,167</u>	<u>\$ 24,521</u>	<u>\$ 8,625</u>	<u>\$ 8,625</u>	<u>\$ 8,201</u>	<u>\$ 8,201</u>	<u>\$ 7,745</u>	<u>\$ 7,745</u>	<u>\$ 7,427</u>	<u>\$ 7,427</u>

**City of Boston**

**Special Revenue Fund**

**BALANCE SHEETS**  
**June 30, 2002, 2001, 2000, 1999 and 1998**  
(in thousands)

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
<b>ASSETS</b>					
Cash and investments.....	\$ 106,093	\$ 103,877	\$ 71,624	\$ 146,402	\$ 96,338
Restricted cash and investments.....	-	-	-	2,137	-
Receivables (net, where applicable, of allowances for estimated uncollectible amounts):					
Intergovernmental.....	56,301	27,147	65,671	53,853	37,764
Departmental and other.....	195	13,146	1,316	1,665	2,228
Total receivables.....	<u>56,496</u>	<u>40,293</u>	<u>66,987</u>	<u>55,518</u>	<u>39,992</u>
Due from other funds.....	-	4,291	29,527	2,237	2,325
Other assets.....	-	-	-	300	271
Total assets.....	<u>\$ 162,589</u>	<u>\$ 148,461</u>	<u>\$ 168,138</u>	<u>\$ 206,594</u>	<u>\$ 138,926</u>
<b>LIABILITIES</b>					
Warrants and accounts payable.....	\$ 14,597	\$ 10,199	\$ 32,301	\$ 54,476	\$ 25,419
Accrued liabilities:					
Other.....	27,281	21,296	33,926	33,946	31,809
Due to other funds.....	-	3,724	31,714	24,659	19,918
Total liabilities.....	<u>41,878</u>	<u>35,219</u>	<u>97,941</u>	<u>113,081</u>	<u>77,146</u>
<b>FUND BALANCES AND OTHER CREDITS</b>					
Reserved for:					
Encumbrances and continuing appropriations.....	44,111	60,231	62,980	59,355	56,675
Unreserved:					
Designated.....	-	-	-	14,826	-
Undesignated.....	76,600	53,011	7,217	19,332	5,105
Total fund balance.....	<u>120,711</u>	<u>113,242</u>	<u>70,197</u>	<u>93,513</u>	<u>61,780</u>
Total liabilities and fund balance.....	<u>\$ 162,589</u>	<u>\$ 148,461</u>	<u>\$ 168,138</u>	<u>\$ 206,594</u>	<u>\$ 138,926</u>

**City of Boston**

**Special Revenue Fund**

**Statement of Revenues, Expenditures, Other Financing  
Sources (Uses) and Changes in Fund Balance  
Fiscal Years Ending June 30, 2002, 2001, 2000, 1999 and 1998  
(in thousands)**

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
<b>REVENUES:</b>					
Local:					
Fines.....	\$ 44.00	\$ -	\$ -	\$ -	\$ -
Investment income.....	159	-	-	-	-
Licenses and permits.....	252	-	-	-	-
Departmental and other revenue.....	10,478	80,467	34,135	36,114	16,471
Total local revenues.....	10,933	80,467	34,135	36,114	16,471
Intergovernmental:					
Intergovernmental.....	334,961	280,282	255,430	259,908	242,765
Total intergovernmental revenues.....	334,961	280,282	255,430	259,908	242,765
Total revenues.....	345,894	360,749	289,565	296,022	259,236
<b>EXPENDITURES:</b>					
Current operations:					
General government.....	7,131	9,312	7,185	5,782	3,539
Human services.....	5,290	4,956	3,757	4,542	3,845
Public safety.....	21,888	20,556	23,060	26,453	23,354
Public works.....	407	589	614	419	280
Parks and recreation.....	396	665	2,147	4,474	4,228
Libraries.....	5,261	1,238	1,089	1,222	1,337
Schools.....	130,162	115,580	91,058	76,522	71,189
County.....	104,754	87,462	83,974	70,068	71,648
Community development.....	63,081	69,026	60,875	70,512	85,082
Capital outlays.....	-	3,999	3,537	5,166	7,294
Debt service.....	3,894	4,321	22,549	3,424	2,175
Total expenditures.....	342,264	317,704	299,845	268,584	273,971
Excess (deficiency) of revenues over expenditures.....	3,630	43,045	(10,280)	27,438	(14,735)
<b>OTHER FINANCING SOURCES (USES):</b>					
Proceeds of debt.....	3,839	-	1,790	5,015	20,000
Operating transfers out, net.....	-	-	(14,826)	(720)	(9,568)
Total other financing sources (uses), net.....	3,839	-	(13,036)	4,295	10,432
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	7,469	43,045	(23,316)	31,733	(4,303)
Fund balance, beginning of year .....	113,242	70,197	93,513	61,780	66,083
Adjustments to beginning fund balance.....	-	-	-	-	-
Fund balance, end of year.....	<u>\$ 120,711</u>	<u>\$ 113,242</u>	<u>\$ 70,197</u>	<u>\$ 93,513</u>	<u>\$ 61,780</u>

**City of Boston**

**Capital Projects Fund**

**BALANCE SHEETS**  
**June 30, 2002, 2001, 2000, 1999 and 1998**  
(in thousands)

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
<b>ASSETS</b>					
Cash and investments.....	\$ 80,537	\$ 90,976	\$ 60,347	\$ 113,634	\$ 48,021
Cash and investments held by trustees.....	3,745	-	-	-	-
Receivables (net, where applicable, of allowances for estimated uncollectible amounts):					
Intergovernmental.....	-	-	309	-	-
Departmental and other.....	-	-	315	-	-
Total receivables.....	-	-	624	-	-
Due from other funds.....	-	388	1,741	6,940	1,206
Other assets.....	-	-	-	1,625	-
Total assets.....	<u>\$ 84,282</u>	<u>\$ 91,364</u>	<u>\$ 62,712</u>	<u>\$ 122,199</u>	<u>\$ 49,227</u>
<b>LIABILITIES</b>					
Warrants and accounts payable.....	\$ 9,593	\$ 5,732	\$ 7,266	\$ 5,668	\$ 18,477
Accrued liabilities:					
Other.....	35	1,788	1,788	1,788	1,787
Due to other funds.....	-	58,026	75,385	42,208	43,743
Due to other governments.....	-	732	482	545	-
Total liabilities.....	<u>9,628</u>	<u>66,278</u>	<u>84,921</u>	<u>50,209</u>	<u>64,007</u>
<b>FUND BALANCES AND OTHER CREDITS</b>					
Reserved for:					
Encumbrances and other.....	112,020	176,212	141,480	160,740	140,900
Future appropriations.....	55,874	-	-	-	-
Unreserved:					
Undesignated.....	(93,240)	(151,126)	(163,689)	(88,750)	(155,680)
Total fund balance.....	<u>74,654</u>	<u>25,086</u>	<u>(22,209)</u>	<u>71,990</u>	<u>(14,780)</u>
Total liabilities and fund balance.....	<u>\$ 84,282</u>	<u>\$ 91,364</u>	<u>\$ 62,712</u>	<u>\$ 122,199</u>	<u>\$ 49,227</u>

City of Boston

Capital Projects Fund

Statement of Revenues, Expenditures, Other Financing  
Sources (Uses) and Changes in Fund Balance  
Fiscal Years Ending June 30, 2002, 2001, 2000, 1999 and 1998  
(in thousands)

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
<b>REVENUES:</b>					
Local:					
Investment income.....	\$ -	\$ -	\$ -	\$ 99	\$ -
Departmental and other revenue.....	8,649	23,444	3,959	2,608	2,255
Total local revenues.....	<u>8,649</u>	<u>23,444</u>	<u>3,959</u>	<u>2,707</u>	<u>2,255</u>
Intergovernmental:					
Intergovernmental.....	13,609	51,632	9,820	17,650	18,396
Total intergovernmental revenues.....	<u>13,609</u>	<u>51,632</u>	<u>9,820</u>	<u>17,650</u>	<u>18,396</u>
Total revenues.....	<u>22,258</u>	<u>75,076</u>	<u>13,779</u>	<u>20,357</u>	<u>20,651</u>
<b>EXPENDITURES:</b>					
Capital outlays.....	139,593	185,475	255,991	201,237	190,615
Debt Service.....	-	-	-	293	432
Total expenditures.....	<u>139,593</u>	<u>185,475</u>	<u>255,991</u>	<u>201,530</u>	<u>191,047</u>
Excess (deficiency) of revenues over expenditures.....	<u>(117,335)</u>	<u>(110,399)</u>	<u>(242,212)</u>	<u>(181,173)</u>	<u>(170,396)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
Proceeds of general obligation bonds, installment notes and leasing financings.....	170,915	209,719	145,330	266,025	179,838
Payments to escrow agent for refunded debt.....	-	(52,025)	-	2,000	(62,908)
Operating transfers in (out), net.....	-	-	2,683	(82)	9,536
Total other financing sources, net.....	<u>170,915</u>	<u>157,694</u>	<u>148,013</u>	<u>267,943</u>	<u>126,466</u>
<b>SPECIAL ITEM:</b>					
Proceeds from sale of capital assets.....	13,300	-	-	-	-
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses.....	66,880	47,295	(94,199)	86,770	(43,930)
Fund (deficit) balance, beginning of year .....	<u>7,774</u>	<u>(22,209)</u>	<u>71,990</u>	<u>(14,780)</u>	<u>29,150</u>
Fund balance (deficit), end of year.....	<u>\$ 74,654</u>	<u>\$ 25,086</u>	<u>\$ (22,209)</u>	<u>\$ 71,990</u>	<u>\$ (14,780)</u>

**City of Boston**

**Internal Service Fund**

**BALANCE SHEETS**

**June 30, 2002, 2001, 2000, 1999 and 1998**

**(in thousands)**

	<u><b>2002</b></u>	<u><b>2001</b></u>	<u><b>2000</b></u>	<u><b>1999</b></u>	<u><b>1998</b></u>
<b>ASSETS</b>					
Cash and cash equivalents.....	\$ 12,052	\$ 7,714	\$ 4,044	\$ 4,354	\$ -
Receivables:					
Departmental and other receivables....	151	49	101	-	103
Due from other funds and sources.....	727	791	761	754	782
Other assets.....	1,606	1,776	1,193	-	-
Total assets.....	<u>\$ 14,536</u>	<u>\$ 10,330</u>	<u>\$ 6,099</u>	<u>\$ 5,108</u>	<u>\$ 885</u>
<b>LIABILITIES</b>					
Accrued Liabilities:					
Judgments and claims <sup>(1)</sup> .....	\$ 7,051	\$ 10,000	\$ 11,202	\$ 9,740	\$ 10,363
Warrants and accounts payable.....	25	22	-	698	1,418
Total liabilities.....	<u>7,076</u>	<u>10,022</u>	<u>11,202</u>	<u>10,438</u>	<u>11,781</u>
<b>FUND EQUITY</b>					
Retained deficit.....	7,460	308	(5,103)	(5,330)	(10,896)
Total fund equity.....	<u>7,460</u>	<u>308</u>	<u>(5,103)</u>	<u>(5,330)</u>	<u>(10,896)</u>
Total liabilities and fund equity...	<u>\$ 14,536</u>	<u>\$ 10,330</u>	<u>\$ 6,099</u>	<u>\$ 5,108</u>	<u>\$ 885</u>

<sup>(1)</sup> Beginning in fiscal year 2002, Judgements and claims refers to Accrued liabilities to comply with GASB Statement #34 requirements.



**City of Boston**  
**Internal Service Fund**

**Statement of Revenues, Expenditures, and Changes in Fund Equity**  
**Fiscal Years Ending June 30, 2002, 2001, 2000, 1999 and 1998**  
**(in thousands)**

	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
<b>REVENUES</b>					
Employer contributions.....	\$ 53,042	\$ 47,660	\$ 45,629	\$ 47,447	\$ 45,998
Employee contributions.....	18,367	16,744	15,177	16,307	15,582
Miscellaneous.....	510	1,807	719	1,443	256
Total revenues.....	<u>71,919</u>	<u>66,211</u>	<u>61,525</u>	<u>65,197</u>	<u>61,836</u>
<b>EXPENDITURES</b>					
Administrative and general.....	-	546	373	386	364
Benefits <sup>(1)</sup> .....	<u>64,767</u>	<u>60,254</u>	<u>60,925</u>	<u>59,245</u>	<u>60,565</u>
Total expenditures.....	<u>64,767</u>	<u>60,800</u>	<u>61,298</u>	<u>59,631</u>	<u>60,929</u>
Changes in net assets .....	7,152	5,411	227	5,566	907
Net assets (deficit), beginning of year.....	308	(5,103)	(5,330)	(10,896)	(11,803)
Net assets, end of year.....	<u>\$ 7,460</u>	<u>\$ 308</u>	<u>\$ (5,103)</u>	<u>\$ (5,330)</u>	<u>\$ (10,896)</u>

(1) Beginning in fiscal year 2002, the Administrative & general and Benefits amounts are being reported as a single amount.

**City of Boston**

**Enterprise Funds**

**BALANCE SHEETS**

**June 30, 2002**

**(in thousands)**

**2002** <sup>(1)</sup>

**ASSETS**

Current assets:

Cash and investments.....	\$	702
Cash and investments held by trustees.....		64,777
Receivables, net.....		-
Due from component units.....		129,103
Due from other funds.....		-
Due from other governments.....		2,600
Other assets.....		1,555
Total current assets.....		<u>198,737</u>
Total assets.....		<u>198,737</u>

**LIABILITIES**

Current liabilities:

Warrants and accounts payable.....		269
Accrued liabilities.....		-
Current portion of long-term debt.....		6,835
Total current liabilities.....		<u>7,104</u>

Noncurrent liabilities:

Special obligation bonds.....		114,790
Revenue bonds.....		136,360
Total noncurrent liabilities.....		<u>251,150</u>
Total liabilities.....		<u>258,254</u>

**NET ASSETS**

Unrestricted.....		(59,517)
Total net assets.....	\$	<u>(59,517)</u>

<sup>(1)</sup> Due to the implementation of GASB Statement #34, and beginning in fiscal year 2002, the City must report all activity in the Enterprise Fund as a separate entity.

**City of Boston**

**Enterprise Funds**

**Statement of Revenues, Expenditures, and Changes in Net Assets  
June 30, 2002**

	<u>2002 <sup>(1)</sup></u>
Operating revenues:	
Contributions.....	\$ -
Excise taxes - pledged for debt service.....	5,079
Departmental and other - pledged for debt service.....	7,303
Total operating revenues.....	<u>12,382</u>
Operating expenditures:	
Contributions to State.....	19,035
Health benefits.....	-
Total operating expenditures.....	<u>19,035</u>
Operating (loss) income.....	<u>(6,653)</u>
Nonoperating revenue (expenditure):	
Intergovernmental - state grants.....	38,695
Investment earnings - pledged for debt service.....	8,579
Investment earnings - other.....	15
Interest expense.....	(8,232)
Total nonoperating revenue (expense)...	<u>39,057</u>
Change in net assets.....	<u>32,404</u>
Total net assets - beginning.....	<u>(91,921)</u>
Total net assets - ending.....	<u>\$ (59,517)</u>

Due to the implementation of GASB Statement #34, and beginning in fiscal year 2002 the City must report all activity in the Enterprise Fund as a separate entity.

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## APPENDIX C

### AUTHORIZATIONS AND PURPOSES

The bonds will be issued in the amounts, for the various municipal purposes, pursuant to the statutory authorizations and under loan orders of the City Council effective on the dates indicated in the following table. The City, upon consultation with Bond Counsel, may change certain of the purposes for which the Bonds are issued. Such changes, however, if any, will not modify the final maturity schedule or terms of the Bonds as set forth on the cover page of this Official Statement.

Amount	Purpose Name	Statute	Effective Date
136,638.99	Remodeling & Extraordinary Repairs; Various Depts	C44 s7 (3A)	November 22, 1983
614,123.72	Remodeling & Extraordinary Repairs; School Dept.	C44 s7 (3A)	July 21, 1998
1,690,653.32	School Project Loan	C70B	June 30, 1998
5,217.07	Urban Renewal - Campus High	C121B s20	December 5, 1986
17,487.46	Remodeling & Extraordinary Repairs	C44 s7 (3A)	March 13, 1987
6,702.58	Capital Improvements - Act '73	C642 s7A Act 1973	December 31, 1987
217,969.21	Remodeling & Extraordinary Repairs	C44 s7 (3A)	January 21, 1988
141,044.43	Construction of Public Ways	C44 s7 (5)	May 30, 1989
63,276.78	Remodeling & Extraordinary Repairs	C44 s7 (3A)	May 30, 1989
6,615.73	Traffic Signal, Public Lighting, Police Comm., and/or Fire Alarm Installations	C44 s7 (14)	June 27, 1990
359,482.88	Construction of Public Ways	C44 s7 (5)	June 27, 1990
21,967.36	Remodeling & Extraordinary Repairs	C44 s7 (3A)	June 27, 1990
747,787.03	Construction of Buildings; Acquisition of Land	C44 s7 (3)	June 27, 1990
19,016.48	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	June 27, 1990
9,985.65	Remodeling & Extraordinary Repairs	C44 s7 (3A)	April 24, 1991
220,155.80	Construction of Sidewalks	C44 s7 (6)	April 23, 1992
46,636.42	Departmental Equipment	C44 s7 (9)	April 23, 1992
53,410.83	Remodeling & Extraordinary Repairs	C44 s7 (3A)	April 23, 1992
4,744.11	Remodeling & Extraordinary Repairs	C44 s7 (3A)	April 23, 1992

Amount	Purpose Name	Statute	Effective Date
1,256,622.08	Traffic Signal, Public Lighting, Police Comm., and/or Fire Alarm Installations	C44 s7 (14)	April 23, 1992 amended on May 25, 1994, June 23, 1995, June 25, 1996, October 21, 1997
443,198.67	Capital Improvements - Act '91	C642 s7B Act 1991	May 14, 1993
156,674.69	Urban Renewal - Charlestown Navy Yard	C121B s20	May 14, 1993
6,853.93	Capital Improvements - Act '91		May 14, 1993
1,108,338.86	Construction of Bridges	C44 s7 (4)	June 4, 1993 amended on May 25, 1994, June 23, 1995, June 25, 1996
21,292.27	Capital Improvements - Act '91; School Dept.	C642 s7B Act 1991	May 4, 1994
12,765.55	Capital Improvements - Act '91	C642 s7B Act 1991	May 4, 1994
1,074,553.99	Construction of Public Ways	C44 s7 (5)	May 25, 1994 amended on June 25, 1996
14,866.88	Departmental Equipment	C44 s7 (9)	May 25, 1994 amended on June 23, 1995, October 21, 1997
54,284.11	Engineering & Architectural Services	C44 s7 (22)	May 25, 1994 amended on June 25, 1996
559.04	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	May 25, 1994 amended on June 23, 1995, June 25, 1996, October 21, 1997, July 21, 1998
17,667.15	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	May 25, 1994
119,664.18	Capital Improvements - Act '91	C642 s7B Act 1991	June 2, 1995

<b>Amount</b>	<b>Purpose Name</b>	<b>Statute</b>	<b>Effective Date</b>
94,527.43	Capital Improvements - Act '91	C642 s7B Act 1991	June 2, 1995
186,571.26	Urban Renewal - All Areas	C121B s20	June 2, 1995 amended on June 4, 1996, September 30, 1997
415,450.03	Remodeling & Extraordinary Repairs	C44 s7 (3A)	June 23, 1995 amended on October 21, 1997
69,827.50	Remodeling & Extraordinary Repairs	C44 s7 (3A)	June 23, 1995
252,973.61	Remodeling & Extraordinary Repairs; School Dept.	C44 s7 (3A)	June 23, 1995
20,859.00	Remodeling & Extraordinary Repairs; Health & Hospitals Dept.	C44 s7 (3A)	June 23, 1995 amended on July 21, 1998
24,727.89	Engineering & Architectural Services	C44 s7 (22)	June 23, 1995
57,028.42	Construction of Buildings; Acquisition of Land	C44 s7 (3)	June 23, 1995
104,885.90	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	June 23, 1995
135,076.24	Remodeling & Extraordinary Repairs	C44 s7 (3A)	October 21, 1997
999,693.62	Capital Improvements - Act '91	C642 s7B Act 1991	June 4, 1996
919,133.32	Capital Improvements - Act '96	C642 s7C Act 1996	June 4, 1996
65,767.05	Acquisition of Land; Cemeteries	C44 s7 (20)	June 25, 1996
254,870.33	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	June 25, 1996 amended on October 30, 1997
499,972.97	Capital Improvements - Act '96 School Dept.	C642 s7C Act 1996	July 9, 1996 amended on September 30, 1997, October 28, 1997, May 12, 1998
537,548.92	School Project Loan	C70B	July 9, 1996 amended on September 30, 1997, October 28, 1997, May 12, 1998

Amount	Purpose Name	Statute	Effective Date
81,162.34	Remodeling & Extraordinary Repairs	C44 s7 (3A)	October 21, 1997
120,619.15	Capital Improvements - Act '96	C642 s7C Act 1996	August 5, 1996
66,296.20	Capital Improvements - Act '96	C642 s7C Act 1996	September 30, 1997
662,798.36	Urban Renewal - Boston Housing Authority	C121B s20	September 30, 1997
1,787,419.95	Remodeling & Extraordinary Repairs	C44 s7 (3A)	October 21, 1997
442,832.31	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	October 21, 1997
301,931.26	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	October 21, 1997
164,626.02	Capital Improvements - Act '96; Neighborhood Development	C642 s7C Act 1996	June 30, 1998
887,771.95	Computer Hardware School Dept.	C44 s7 (28)	July 21, 1998
339,351.68	Departmental Equipment	C44 s7 (9)	July 21, 1998
528,384.12	Remodeling & Extraordinary Repairs	C44 s7 (3A)	July 21, 1998
372,842.90	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	July 21, 1998
55,648.80	Engineering & Architectural Services	C44 s7 (22)	August 12, 1999
99,596.72	Acquisition of Land; Cemeteries	C44 s7 (20)	August 12, 1999
50,101.48	Capital Improvements - Act '96	C642 s7C Act 1996	July 22, 1999
4,461,774.18	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	August 12, 1999
1,891.64	Construction of Buildings; Acquisition of Land	C44 s7 (3)	August 12, 1999
3,795,804.99	Remodeling & Extraordinary Repairs	C44 s7 (3A)	August 12, 1999
2,406,552.31	Remodeling & Extraordinary Repairs; School Dept.	C44 s7 (3A)	December 15, 1999
2,933,267.01	Remodeling & Extraordinary Repairs; School Dept.	C44 s7 (3A)	February 29, 2000



<b>Amount</b>	<b>Purpose Name</b>	<b>Statute</b>	<b>Effective Date</b>
59,650.79	Construction of Buildings; Acquisition of Land	C44 s7 (3)	August 7, 2000
3,196,232.08	Remodeling & Extraordinary Repairs	C44 s7 (3A)	August 7, 2000
1,354,862.82	Construction of Public Ways	C44 s7 (5)	August 7, 2000
71,356.62	Departmental Equipment	C44 s7 (9)	August 7, 2000
110,499.27	Engineering & Architectural Services	C44 s7 (22)	August 7, 2000
1,686,178.53	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	August 7, 2000
148,162.32	Capital Improvements - Act '96	C642 s7C Act 1996	July 17, 2000
3,115,575.80	Remodeling & Extraordinary Repairs; School Dept.	C44 s7 (3A)	August 7, 2000
491,054.22	Traffic Signal, Public Lighting, Police Comm., and/or Fire Alarm Installations	C44 s7 (14)	September 29, 2000
15,278.24	Traffic Signal, Public Lighting, Police Comm., and/or Fire Alarm Installations	C44 s7 (14)	May 1, 2001
338,759.66	Remodeling & Extraordinary Repairs	C44 s7 (3A)	May 1, 2001
12,020,851.29	Remodeling & Extraordinary Repairs	C44 s7 (3A)	September 7, 2001
1,560,330.25	Construction of Bridges	C44 s7 (4)	August 16, 2001
930,789.32	Construction of Public Ways	C44 s7 (5)	September 7, 2001
2,804,661.82	Departmental Equipment	C44 s7 (9)	September 7, 2001
3,054,216.89	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	September 7, 2001
907,144.19	Computer Hardware	C44 s7 (28)	September 7, 2001
1,284,757.59	Capital Improvements - Act '91	C642 s7B Act 1991	August 17, 2001
189,777.64	Construction of Buildings; Acquisition of Land	C44 s7 (3)	September 7, 2001
231,171.13	Remodeling & Extraordinary Repairs	C44 s7 (3A)	September 7, 2001
4,914,283.05	Remodeling & Extraordinary Repairs	C44 s7 (3A)	August 5, 2002
31,695.71	Remodeling & Extraordinary Repairs	C44 s7 (3A)	August 5, 2002
59,035.59	Construction of Bridges	C44 s7 (4)	August 5, 2002

Amount	Purpose Name	Statute	Effective Date
3,545,586.71	Acquisition of Land; Parks & Playgrounds Outdoor Facilities	C44 s7 (25)	August 5, 2002
8,244.36	Capital Improvements - Act '96	C642 s7C Act 1996	July 15, 2002
<b>75,000,000.00</b>			
33,500,000.00	Construction of Buildings; Acquisition of Land	C44 s7 (3)	October 16, 2002
<b>33,500,000.00</b>			
5,999,423.67	Construction of Buildings; Acquisition of Land - School Dept.	C44 s7 (3)	August 12, 1999
2,322,575.47	Construction of Buildings; Acquisition of Land - School Dept.	C44 s7 (3)	December 15, 1999
16,678,000.86	Construction of Buildings; Acquisition of Land - School Dept.	C44 s7 (3)	June 6, 2000
<b>25,000,000.00</b>			
<b>133,500,000.00</b>			

PROPOSED FORM OF OPINION OF BOND COUNSEL



[Date of Delivery]

Temporary Collector-Treasurer  
City of Boston  
City Hall  
Boston, Massachusetts

(\$162,015,000 City of Boston, Massachusetts  
General Obligation Bonds and Refunding Bonds, 2003 Series A,  
dated February 1, 2003)

We have examined the law, a certified copy of proceedings and other papers relating to the issue of \$162,015,000 General Obligation Bonds and Refunding Bonds, 2003 Series A, dated February 1, 2003, by the City of Boston, Massachusetts.

On the basis of this examination we are of opinion, as of the date hereof and under existing law, as follows:

(1) The bonds are valid general obligations of the City of Boston and except to the extent they are paid from other sources the principal of and interest on the bonds are payable from taxes which may be levied without limitation as to rate or amount upon all taxable property in the City.

(2) The interest on the bonds is exempt from Massachusetts personal income taxes, and the bonds are exempt from Massachusetts personal property taxes. We express no opinion as to other Massachusetts tax consequences arising with respect to the bonds.

(3) The interest on the bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of computing the alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code of 1986, as amended (the "Code"); it should be noted, however, that interest on the bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes). The opinions set forth in the preceding sentence are subject to the condition that the City comply with all requirements of the Code that must be satisfied subsequent to the issuance of the bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted to comply with these requirements. Failure to comply with certain of these requirements may cause the inclusion of interest on the bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the bonds. We express no opinion regarding other federal tax consequences arising with respect to the bonds.

The rights of the holders of the bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Yours faithfully,

## APPENDIX E

### PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City of Boston, Massachusetts (the "City") in connection with the issuance of its \$162,015,000 General Obligation Bonds and Refunding Bonds, 2003 Series A, dated February 1, 2003 (the "Bonds"). The City covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule.

SECTION 2. Definitions. For purposes of this Disclosure Certificate the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" shall mean any nationally recognized municipal securities information repository for purposes of the Rule. The current National Repositories are listed on Exhibit A attached hereto.

"Owners of the Bonds" shall mean the registered owners, including beneficial owners, of the Bonds.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and each State Depository.

"Rule" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State Depository" shall mean any public or private depository or entity designated by The Commonwealth of Massachusetts as a state information depository for the purpose of the Rule. (As of the date of this Disclosure Certificate there is no State Depository).

### SECTION 3. Provision of Annual Reports.

(a) The City shall, not later than 365 days after the end of each fiscal year, provide to each Repository an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted when available, separately from the balance of the Annual Report.

(b) If the City is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the City shall send a notice to the Municipal Securities Rulemaking Board and the State Depository, if any, in substantially the form attached as Exhibit B.

SECTION 4. Content of Annual Reports. The City's Annual Report shall contain or incorporate by reference the following:

- (a) quantitative information for the preceding fiscal year of the type presented in the City's Official Statement dated February 12, 2003 relating to the Bonds regarding (i) the revenues and expenditures of the City relating to its operating budget, (ii) capital expenditures, (iii) fund balances, (iv) property tax information, (v) outstanding indebtedness and overlapping debt of the City, and (vi) pension obligations of the City, and
- (b) the most recently available audited financial statements of the City, prepared in accordance with generally accepted accounting principles.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the City or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so incorporated by reference.

### SECTION 5. Reporting of Material Events.

(a) The City shall give notice, in accordance with subsection 5(b) below, of the occurrence of any of the following events with respect to the Bonds, if material:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.

5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds.
7. Modifications to rights of the Owners of the Bonds.
8. Bond calls.
9. Defeasances.
10. Release, substitution or sale of property securing repayment of the Bonds.
11. Rating changes.

It should be noted, however, that as of this date, events of the types listed in paragraphs 2, 3, 4, 5 and 10 above are not applicable to the Bonds.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such an event would be material under applicable federal securities laws and if so, the City shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and the State Depository, if any.

SECTION 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance in accordance with the terms of the Bonds, prior redemption or payment in full of all of the Bonds.

SECTION 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived if such amendment or waiver is permitted by the Rule, as evidenced by an opinion of counsel expert in federal securities law (which may include bond counsel to the City), to the effect that such amendment or waiver would not cause the Disclosure Certificate to violate the Rule. The first Annual Report filed after enactment of any amendment to or waiver of this Disclosure Certificate shall explain, in narrative form, the reasons for the amendment or waiver and the impact of the change in the type of information being provided in the Annual Report.

If the amendment provides for a change in the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall also be quantitative. A notice of the change in the accounting principles shall be sent to each Repository.

SECTION 8. Default. In the event of a failure of the City to comply with any provision of

this Disclosure Certificate, any Owner of the Bonds may seek a court order for specific performance by the City of its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not constitute a default with respect to the Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action for specific performance of the City's obligations hereunder and not for money damages in any amount.

SECTION 9. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Owners of the Bonds from time to time, and shall create no rights in any other person or entity.

Date: February \_\_, 2003

CITY OF BOSTON, MASSACHUSETTS

By \_\_\_\_\_  
Temporary Collector-Treasurer

\_\_\_\_\_  
Mayor

\_\_\_\_\_  
City Auditor

[EXHIBIT A – NATIONAL REPOSITORIES]

[EXHIBIT B – NOTICE OF FAILURE TO FILE ANNUAL REPORT]



## THE BOSTON ECONOMY

The following report has been prepared by the Boston Redevelopment Authority (the “BRA”) for inclusion in the Official Statement. The report presents major economic, demographic and market indicators, and historical statistical and other information regarding the Boston economy. The report also describes the principal components of the City’s economy.

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## **THE BOSTON ECONOMY**

### ***General***

The City is the economic hub of the Commonwealth of Massachusetts (the “Commonwealth”) and the New England region. It is a center for professional, business, financial, governmental, higher educational and medical services, as well as transportation, communications, export, cultural and entertainment activities. As a government center, the City is the capital of the Commonwealth and is host to several federal offices. High technology, research and development, manufacturing, and wholesale distribution also contribute to the economy of the City and its suburbs.

The City is the twentieth largest city in the United States and the center of the seventh largest Consolidated Metropolitan Statistical Area (“CMSA”) in the nation, consisting of the Boston Primary Metropolitan Statistical Area (“PMSA”) plus the contiguous PMSAs of Brockton, Fitchburg-Leominster, Lawrence, Lowell, Manchester (New Hampshire), Nashua (New Hampshire), New Bedford, Portsmouth-Rochester (New Hampshire-Maine), and Worcester (Massachusetts-Connecticut). The Boston CMSA had a population of 5,819,100 in 2000, as reported by the U.S. Department of Commerce, Bureau of the Census (the “Bureau of the Census”). In 2000, the City had a population of 589,141, as reported by the Bureau of the Census, and had 688,077 jobs as reported by the U.S. Bureau of Economic Analysis from data of the Massachusetts Division of Employment and Training. The ratio of jobs to population indicates that the City provides a direct source of employment and income for an area that extends well beyond its borders. Measured in terms of jobs, the City’s economy comprises approximately 18% of the Massachusetts economy and 10% of that of the six New England states.

### ***Overview of Current Economic Conditions***

As Boston started the year 2002 signs of a slowing economy in Massachusetts, metropolitan Boston, and the City were still evident dating from Spring of 2001. The Boston economy peaked in the 1999-2000 time period as Boston’s office, hotel, and housing markets were among the strongest in the nation by mid-year 2000 and into early 2001. From about January 2001 signs of economic slowing have been notable and persisted through September 2002. Boston’s slower economic growth in 2001 was clear given existing information, including: an increasing unemployment rate, a growing number of initial unemployment claims, a higher level of continuing unemployment claims, a falling hotel occupancy rate and lower average daily hotel room rate, a growing office vacancy rate, and a slowing in residential sales. These trends persisted into 2002, except for residential sales, which have increased.

Many indicators of Boston’s economic performance in 2001 registered weakness given the twin factors of a burgeoning economic recession which was evident in the Summer of 2001, plus the tragic events of September 11<sup>th</sup> which compounded the slow-down. Unemployment rates, which had declined to a low of 2.2%, 2.6%, and 2.9% in the Boston metropolitan area, the Commonwealth, and in the City, respectively, by the end of 2000, rose to levels of 3.3%, 3.7% and 4.1%, respectively for calendar year 2001. Boston’s office market has weakened with rising vacancy rates (over 9%), rising availability rates (over 15%) and negative absorption for two consecutive years, as has been the case for most other major office markets in the country. Hotel occupancy declined to 70% then rose slightly to 73% in 2001 after reaching 78% in the year 2000. Additionally, the total number of residential sales, which held up with steady volume through early 2002 due to low interest rates, have begun to moderate although values are still holding firm.

This report presents the major economic, demographic, and market indicators for the Boston economy. For the most part, they demonstrate that the City’s economy was very strong through the 1990s and into mid-2000. By early 2001 the economic slowdown was moving toward a national recession and then the events of September 11<sup>th</sup> compounded matters. Economic data for 2002 still indicate a lingering economic slowdown, although it appears from employment data for the end of 2002 that there was some improvement over conditions during the summer.

### ***Statistical Data***

Statistical data relating to population, employment and income are derived primarily from four separate sources: the U.S. Bureau of the Census, the U.S. Bureau of Labor Statistics, the U.S. Bureau of

Economic Analysis (the “BEA”), the City, and the Boston Redevelopment Authority (the “BRA”), each of which is described below.

The U.S. Bureau of the Census publishes information about population, housing and the economy. Data from the 2000 Decennial Census of Population and Housing is now available in part, with more data to be released in 2003. In addition, some monthly and quarterly data are available through August 2002 on certain topics for the region, Massachusetts, and the Boston metropolitan area. The U.S. Bureau of the Census does not publish such interim data for the City.

The U.S. Bureau of Labor Statistics publishes data and reports about the workforce and related subjects including unemployment rates, area wages, and cost-of-living adjustments. Final data for 2001 are the most recent annual data available; the most recent monthly data are for November 2002.

The U.S. Bureau of Economic Analysis publishes quarterly and annual statistics on income and employment. The most recent annual figures for the nation, New England, Massachusetts, the metropolitan counties, and Suffolk county, which consists of the City plus the municipalities of Revere, Chelsea and Winthrop, are from the September 2002 Regional Economic Information System (“REIS”). The most recent quarterly statistics are for the second quarter of 2002. The City comprises approximately 87% of Suffolk County’s population and approximately 96% of its employment.

The City and the BRA prepare reports and compile data on the population and economy of the City and its neighborhoods. BRA also provides data and trends from various local, regional, state and national sources on such topics as employment and occupation, large employers, City schools, universities and colleges, medical institutions, tourism and lodging, transportation, office and industrial markets, housing, building activity and urban redevelopment and infrastructure projects.

Statistical data do not necessarily reflect current activity because of delays resulting from the time required to collect, tabulate and publish such data. While the City believes that it has used the most recent data readily available to it in the discussion in this section, because of such necessary delays, the data contained herein may not reflect current conditions or trends. Moreover, statistical data are approximations and generalizations subject to various sources of error inherent in the statistical process, and may be revised on the basis of additional data. Within such limits, the statistical data contained herein describe past activity and are not presented with a view toward predicting future economic activity either in particular categories or in general.

### ***New England, Massachusetts and Metropolitan Boston Economies***

New England comprises a six-state region that had a combined population of 13.9 million persons and 8.8 million jobs in 2000 according to the U.S. Census Bureau and the Bureau of Economic Analysis annual data. Total personal income in New England grew at an annual average compound rate of 5.1% from 1990 through 2000, just below the 6.2% national rate for the same period. In the most recent period for which data is available, from second quarter 2001 through second quarter 2002, personal income in New England grew at a rate of 2.0%, which was just below the national rate of 2.7%. Employment in New England, grew by 718,971 from 1990 through 2000, an annual average of 0.9%.

The Massachusetts economy, with 6.4 million people and 4.1 million jobs in 2000, showed substantial growth in the 1990s. Total personal income grew at a 5.5% annual average rate from 1990 through 2000, versus a 6.2% national rate. From second quarter 2001 through second quarter 2002, it grew by 1.3%, higher than the 2.7% national average. Massachusetts also gained 340,874 jobs between 1990 and 2000, an annual average of 1.4%

The five-county Boston metropolitan area (consisting of Essex, Middlesex, Norfolk, Plymouth, and Suffolk counties), had 4.0 million people and 2.8 million jobs in 2000, and exhibited economic trends similar to those for the Commonwealth. Total personal income from 1990 through 2000 grew at an annual average rate of 5.8%, just below the national rate of 6.2%. The most recent employment data show a gain of 231,141 jobs for the 1990-2000 period, an annual gain of 0.9%. The following table shows the 1990 and 1996-2000 trends for the U.S., New England, Massachusetts, and Metropolitan Boston. Employment data for the City are set forth under “Employment Structure, Employment Trends, and Occupational Changes” and its accompanying table, below.

**Population, Income and Employment  
1990, and 1997-2001  
(Income in current year dollars)**

	<u>1990</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
United States						
Total Personal Income (\$000).....	\$4,885,525,000	\$6,928,545,000	\$7,418,497,000	\$7,779,511,000	\$8,398,796,000	\$8,678,255,000
Per Capita Income (\$) .....	\$19,572	\$25,412	\$26,893	\$27,843	\$29,469	\$30,472
Population .....	249,622,814	272,646,925	275,854,104	279,040,168	281,421,906	284,796,887
Employment .....	139,426,900	156,230,200	160,256,200	163,348,300	167,284,800	161,557,600
New England						
Total Personal Income (\$000).....	\$302,738,643	\$408,230,992	\$437,134,240	\$504,311,475	\$520,439,958	\$520,439,958
Per Capita Income (\$) .....	\$22,884	\$29,924	\$31,829	\$33,262	\$35,784	\$37,115
Population .....	13,229,502	13,642,197	13,733,828	13,837,653	13,922,517	14,022,239
Employment .....	7,919,825	8,251,811	8,423,723	8,568,350	8,787,725	8,818,708
Massachusetts						
Total Personal Income (\$000).....	\$139,772,372	\$191,595,928	\$205,176,386	\$216,822,326	\$241,317,591	\$248,202,140
Per Capita Income (\$) .....	\$23,208	\$30,773	\$32,714	\$34,485	\$37,704	\$38,907
Population .....	6,022,639	6,226,058	6,271,838	6,317,345	6,349,097	6,379,304
Employment .....	3,647,410	3,845,046	3,928,603	4,104,386	4,118,615	4,118,615
Metropolitan Boston <sup>(1)</sup>						
Total Personal Income (\$000).....	\$95,511,040	\$132,654,806	\$142,731,282	\$152,233,746	\$168,006,630	NA
Per Capita Income (\$) .....	\$23,045	\$34,412	\$36,859	\$38,203	\$41,983	NA
Population .....	3,786,229	3,927,782	3,957,661	3,984,862	4,001,752	NA
Employment .....	2,507,009	2,633,235	2,695,596	2,752,945	2,826,983	NA

(1) This metropolitan area only includes five counties in Massachusetts (Essex, Middlesex, Norfolk, Plymouth and Suffolk) but excludes the one county in New Hampshire (Hillsborough) which together comprises the NECMA (New England Counties Metropolitan Area).

Source: U.S. Department of Commerce, Bureau of Economic Analysis, September 23, 2002. 2000 population figures for all of the above are from the U.S. Census Bureau.

***Employment Structure, Employment Trends, and Occupational Changes***

Between 1990 and 2001, the City's employment structure continued to shift from traditional labor intensive manufacturing jobs to technology and service jobs, as shown in the table below, "City of Boston Employment, 1990, and 1997-2001 Selected Years by Industry." Over the past 11 years, the City's service industries, including transportation, communication, public utilities, finance, insurance and the full range of services, expanded their share of the City's total employment from 63.3% in 1990 to 68.5% in 2001, while the total employment in manufacturing and trade declined from 5.2% to 3.8%, and from 13.1% to 11.6%, respectively.

The economy of the Boston metropolitan area primarily rests on high technology, finance, professional and business services, defense, and educational and medical institutions. The City's economy is more specialized in the financial, governmental, business and professional services and educational and medical sectors than the suburban economy, which is more specialized in high technology and the defense industry. As used in this section, "professional services" includes business and professional services such as data processing, bookkeeping, news syndicates, law, accounting, engineering, advertising, and architecture. "Non-professional business services" includes building maintenance, security guards, duplicating services, etc.

The following table shows Boston's employment growth by industry category over the eleven-year period 1990-2001. Significant gains by industry are noted in the Construction, Securities, Health, Social and Non-Profit, Personal and Repair, Cultural, Non-Professional Business and Professional services sectors, while sizable losses are evident in Manufacturing, Wholesale Trade, Insurance, and Government.

### City of Boston Employment, 1990, and 1997-2001 Selected Years by Industry

<u>Industry</u>	<u>1990</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Fishing/Mining/Agriculture.....	1,316	1,264	1,299	1,545	1,697	1,652
Construction .....	13,835	13,678	15,811	18,982	19,809	18,418
Manufacturing .....	32,274	28,425	29,502	28,308	27,978	26,091
Transportation/Communication/Utilities .....	36,795	36,767	36,800	36,938	38,298	38,452
Wholesale Trade.....	19,369	16,178	16,585	17,152	16,862	13,805
Retail Trade .....	61,593	62,774	64,856	66,056	66,600	65,348
Finance, Insurance & Real Estate.....	93,264	101,257	104,352	108,157	109,087	111,329
Banking .....	24,540	21,491	22,586	22,932	26,224	25,536
Securities .....	23,029	42,171	44,994	47,150	45,079	47,867
Insurance .....	31,357	23,423	22,175	22,903	21,720	21,557
Real Estate and Other .....	14,338	14,172	14,595	15,172	16,065	16,367
Services .....	261,854	288,866	296,767	312,534	314,441	318,382
Hotel .....	13,441	11,260	11,937	12,632	12,959	13,126
Health .....	78,615	92,075	93,544	95,883	94,721	97,000
Educational.....	31,431	31,372	31,950	32,144	32,343	33,754
Cultural .....	9,657	10,096	10,417	10,127	10,387	10,644
Social and Non-Profit .....	23,843	24,067	24,517	25,425	25,989	26,675
Professional .....	63,621	67,899	75,851	80,714	80,768	82,565
Non-Professional Business .....	29,540	40,250	36,283	42,291	43,319	40,341
Personal and Repair.....	11,706	11,846	12,271	13,318	13,957	14,277
Government .....	<u>98,924</u>	<u>89,310</u>	<u>90,857</u>	<u>93,527</u>	<u>93,306</u>	<u>90,107</u>
Total .....	619,223	638,520	656,829	683,200	688,077	683,584

Note: The only data for 2002 are for the first quarter of the year from the ES-202 series which, when translated into the BEA format and annualized, results in a yearly estimate of 674,325 jobs: a 9,258 job decrease from 2001 and a rate of -1.4%. Since this is only based on one quarter of the year, the estimate is noted here as preliminary and subject to confirmation when additional data is reported for the remainder of 2002.

Source: 1990-2000 figures are mathematically derived from U.S. Bureau of Economic Analysis Series for Suffolk County ("BEA Regional Economic Information System 1969-1999, May 2001") pro-rated geographically to Boston. Due to use of pro-rating factors, minor discrepancies of 1 to 3 units between totals and employment categories may result.

The most recent report (January 2003) on employment for Boston (the ES-202 employment series kept under the unemployment insurance system) contains data through March 2002. A more recent picture of employment trends for the Commonwealth and the Boston metropolitan area is available, however, from the Bureau of Labor Statistics (Current Employment Series or CES 790 series) non-agricultural employment data. As of early January 2003 these data were available through the month of November 2002, and are presented in the following tables for the Boston metropolitan area.

**Boston Metropolitan Area Total Non-Agricultural Employment**  
**Monthly, 2000-2002**  
(not seasonally adjusted, employment in 000's)

<u>Month</u>	<u>2000</u> <u>Employment</u>	<u>Change from</u> <u>Same month</u> <u>of Previous</u> <u>Year</u>	<u>2001</u> <u>Employment</u>	<u>Change from</u> <u>same month</u> <u>of Previous</u> <u>Year</u>	<u>2002</u> <u>Employment</u>	<u>Change from</u> <u>same month</u> <u>of Previous</u> <u>Year</u>
January .....	1,983.4	2.7%	2,041.1	2.9%	1,995.5	-2.2%
February .....	1,988.5	2.6	2,039.3	2.6	1,995.8	-2.1
March .....	2,002.7	2.7	2,042.1	2.0	2,001.8	-2.0
April .....	2,020.3	2.5	2,050.2	1.5	2,014.2	-1.8
May .....	2,032.5	2.7	2,055.0	1.1	2,020.8	-1.7
June .....	2,058.5	2.7	2,067.4	0.4	2,034.9	-1.6
July .....	2,046.2	3.1	2,046.2	0.0	2,014.2	-1.6
August .....	2,041.8	2.9	2,040.8	0.0	2,008.3	-1.6
September .....	2,057.8	3.1	2,041.4	-0.8	2,010.4	-1.5
October .....	2,073.7	3.2	2,045.2	-1.4	2,015.9	-1.4
November .....	2,087.2	3.4	2,045.7	-2.0	2,018.1	-1.4
December .....	2,098.9	3.2	2,045.7	-2.5	NA	NA
ANNUAL .....	2,041.0	2.9	2,046.7	0.3	NA	NA

Source: U.S. Department of Labor, bureau of Labor Statistics, 790 series of non-agricultural employment. November, 2002.

**Non-Agricultural Wage and Salary Employment by Industry**  
**November 2001 and November 2002**  
**Boston, Massachusetts – New Hampshire PMSA**  
(seasonally unadjusted, employment in 000's)  
(First Quarter 2001 benchmark)

<u>Industry</u>	<u>2001</u>	<u>2002</u>	<u>Change</u>	<u>Percent</u>
Non-Agricultural Total .....	2,045.7	2,018.1	-27.6	-1.4%
Mining .....	0.7	0.8	0.1	14.3
Construction .....	82.9	82.9	0.0	0.0
General Building Contractors .....	17.0	16.3	-0.7	-4.1
Heavy Construction (exc. Bldg.) .....	12.0	12.4	0.4	3.3
Special Trade Contractors .....	53.9	54.2	0.3	0.6
Manufacturing .....	206.5	198.2	-8.3	-4.0
Durable Goods .....	132.6	126.0	-6.6	-5.0
Fabricated Metals .....	13.2	13.1	-0.1	-0.8
Industrial Mach. & Equip. ....	30.5	29.3	-1.2	-3.9
Electronic & Electric Equip. ....	32.3	30.2	-2.1	-6.5
Transportation Equipment .....	8.7	8.3	-0.4	-4.6
Instruments .....	36.1	33.3	-2.8	-7.8
Non-Durable Goods .....	73.9	72.2	-1.7	-2.3
Food & Kindred Products .....	12.7	13.0	0.3	2.4
Textiles, Apparel & Leather .....	5.7	5.3	-0.4	-7.0
Paper & Allied Products .....	5.3	4.9	-0.4	-7.6
Printing & Publishing .....	30.6	30.0	-0.6	-2.0
Chemicals, Petroleum & Oth. ....	12.6	12.0	-0.6	-4.8
Rubber & Plastic Products .....	7.0	7.0	0.0	0.0
Transportation & Public Utilities .....	88.2	85.5	-2.7	-3.1
Transportation .....	53.6	51.1	-2.5	-4.7
Communication .....	24.2	24.0	-0.2	-0.8
Electric, Gas & Sanitary .....	10.4	10.4	0.0	0.0
Trade .....	430.4	423.4	-7.0	-1.6
Wholesale Trade .....	102.9	98.2	-4.7	-4.6

Durable Goods .....	64.1	60.8	-3.3	-5.2
Non-Durable Goods .....	38.8	37.4	-1.4	-3.6
Retail Trade .....	327.5	325.2	-2.3	-0.7
Building Materials & Garden.....	11.3	11.5	0.2	1.8
General Merchandise Stores .....	24.3	22.1	-2.2	-9.1
Food Stores .....	51.2	50.5	-0.7	-1.4
Auto Dealers & Service Stations.....	23.1	22.9	-0.2	-0.9
Apparel & Accessories.....	27.8	27.0	-0.8	-2.9
Eating & Drinking Places .....	117.1	120.6	3.5	3.0
Miscellaneous Retail.....	54.7	52.8	-1.9	-3.5
Finance, Insurance & Real Estate .....	173.1	172.5	-0.6	-0.4
Depository Institutions.....	44.8	46.0	1.2	2.7
Finance .....	104.8	103.6	-1.2	-1.2
Insurance.....	44.6	44.8	0.2	0.5
Services .....	818.8	811.3	-7.5	-0.9
Business Services .....	183.2	168.9	-14.3	-7.8
Health Services .....	198.8	202.7	3.9	2.0
Educational Services.....	115.7	119.2	3.5	3.0
Social Services.....	53.7	55.2	1.5	2.8
Engineering & Mgm't Services .....	110.5	108.8	-1.7	-1.5
Other Services.....	156.9	156.5	-0.4	-0.3
Government.....	245.1	243.5	-1.5	-0.6
Federal Government .....	32.6	32.3	-0.3	-0.9
U.S. Post Office .....	14.0	13.5	-0.5	-3.6
State Government .....	66.7	62.8	-3.9	-5.9
State Education .....	9.6	9.5	-0.1	-1.0
Local Government .....	145.8	148.4	2.6	1.8
Local Education .....	87.4	89.5	2.1	2.4

Note: Some of the sub-categories do not add to totals because in some cases these are not the full list of sub-categories.

Source: U.S. Department of Labor, bureau of Labor Statistics, 790 series of non-agricultural employment. November, 2002.

Data from the two preceding tables show that employment softened in the Boston metropolitan area during early 2001, with no change during the Summer compared to the previous year, then turning into declines for each of the following months except December 2001. As of November a total decline of 27,600 jobs in the metropolitan area was evident over the previous year, and the drop from the high in June 2001 was 49,300 jobs.

The industry composition of employment comparing November 2002 with November 2001 shows that the most severe job losses were evident in Manufacturing, Transportation (particularly air transportation), Wholesale Trade, and Business Services. Gains were still evident in Depository Institutions, Insurance, Health Care, and Educational and Social Services. Only very small losses were apparent in Finance. Retail Trade also showed mainly small losses, with declines in all categories except Eating and Drinking Places, which showed a 3.0% gain.

The following table below indicates that, as of 2000, 69% of City residents were White-Collar workers and 31% were Blue-Collar and Service workers, as compared to 1960 when 44% were White-Collar workers and 46% were Blue-Collar and Service workers. As shown in the following table, this trend among City residents away from Blue-Collar and Service occupations toward White-Collar occupations was evident between 1960 and 1990. During the decade of the 1990s this trend showed some change. White-Collar occupations continued to grow, but at a slower pace, with Managerial, Professional, and Technical jobs gaining, but Sales and Office workers declining. At the same time, Blue-Collar and Services occupations continued to decline, with the exception of Production and Transportation workers, who showed a modest increase between 1990 and 2000.

### Occupational Change in the City's Resident Labor Force

	1960		1970		1980		1990		2000	
	Number	%	Number	%	Number	%	Number	%	Number	%
White-Collar .....	126,471	44	146,657	55	154,456	60	191,251	67	197,049	69
Manag'l., Profess'l., & Relat'd.....	49,080	17	59,929	23	77,217	30	107,206	38	123,850	43
Sales and Office.....	77,391	27	86,728	33	77,239	30	84,045	29	73,199	26
Blue-Collar and Service.....	134,610	46	119,848	45	101,561	40	97,453	33	88,810	31
Constr'n, Extract'n, Maint. ....	32,398	11	27,157	10	19,772	8	18,453	6	14,118	5
Product'n, Transp'n., and Rel. ....	52,175	18	36,695	14	24,825	10	19,971	7	23,630	8
Service and Farm & Fishing .....	50,037	17	55,996	21	56,964	22	59,029	20	51,062	18
Not Reported.....	27,115	9	—	—	—	—	—	—	—	—
Total.....	288,196	100	266,505	100	256,017	100	288,704	100	285,859	100

Source: U.S. Department of Commerce, Bureau of the Census.

Percentages may not add due to rounding.

### Unemployment

In 2001, the annual average unemployment rate for the City was 4.1%, slightly above the rate for Massachusetts at 3.7%, and also above the metropolitan rate at 3.2%, but below the national rate of 4.8%. All of these rates were above the lows reached in 2000. The average annual number of people unemployed in the City for 2001 was 12,067, an increase over the 8,495 annual average for 2000. The 2000 Census data for Boston, which differ from the Bureau of Labor Statistics rates shown below due to sample size, accuracy of defining persons in the labor force, and over-counting the officially unemployed, show that when Boston's total unemployment rate equaled 7.2%, the rate for whites was 5.1%, and the rate for all minority groups combined was 10.2%. This pattern is typical of many of the nation's urban centers.

#### Annual Unemployment Rates

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
City of Boston.....	8.0%	6.6%	5.8%	5.3%	4.4%	4.2%	3.4%	3.3%	2.9%	4.1%
Boston PMSA <sup>(1)</sup> .....	7.6	6.0	5.2	4.7	3.7	3.4	2.8	2.7	2.2	3.2
Massachusetts .....	8.6	6.9	6.0	5.4	4.3	4.0	3.3	3.2	2.6	3.7
New England .....	8.1	6.8	5.9	5.4	4.8	4.4	3.5	3.3	2.8	3.7
United States.....	7.5	6.9	6.1	5.6	5.4	4.9	4.5	4.2	4.0	4.8

(1) Primary Metropolitan Statistical Area, consisting of the City and 129 contiguous municipalities, with a population of approximately 3.4 million in 2000 according to U.S. Census data.

Sources: U.S. Bureau of Labor Statistics for United States, New England and Massachusetts and Massachusetts Division of Employment and Training for the City and Boston PMSA

### Monthly Unemployment Rates for Boston, Boston PMSA, Massachusetts, New England and the United States for 2000, 2001 and 2002<sup>(1)</sup>

	City of Boston			Boston PMSA <sup>(2)</sup>			Massachusetts			New England			United States		
	2000	2001	2002	2000	2001	2002	2000	2001	2002	2000	2001	2002	2000	2001	2002
Jan. ....	3.5%	3.2%	5.1%	3.0%	2.6%	4.4%	3.7%	3.3%	5.0%	3.7%	3.5%	4.7%	4.5%	4.7	6.3%
Feb. ....	3.0	3.0	4.8	2.7	2.6	4.1	3.3	3.2	4.7	3.5	3.6	4.6	4.4	4.6	6.1
Mar. ....	2.9	3.4	4.9	2.4	2.8	4.2	3.0	3.5	4.7	3.1	3.6	4.5	4.3	4.6	6.1
Apr. ....	2.6	3.2	4.9	2.1	2.5	4.1	2.4	3.0	4.5	2.6	3.2	4.2	3.7	4.2	5.7
May .....	2.7	3.7	4.9	2.0	2.9	3.9	2.4	3.2	4.2	2.6	3.4	4.1	3.9	4.1	5.5
Jun. ....	3.3	4.3	5.5	2.4	3.3	4.5	2.8	3.7	4.9	2.8	3.7	4.4	4.2	4.7	6.0
Jul.....	3.3	4.7	5.7	2.4	3.6	4.7	2.8	4.0	5.1	2.7	3.9	4.5	4.2	4.7	6.0
Aug. ....	2.9	4.5	5.7	2.1	3.5	4.6	2.4	3.8	5.0	2.5	3.7	4.5	4.1	4.9	5.7
Sep. ....	3.2	4.8	6.0	2.2	3.8	5.0	2.6	4.1	5.3	2.5	3.8	4.5	3.8	4.7	5.4
Oct.....	2.7	4.7	5.5	1.9	3.7	4.6	2.2	3.9	5.0	2.3	3.8	4.5	3.6	5.0	5.3
Nov. ....	2.6	4.7	5.2	1.9	3.8	4.4	2.2	4.2	4.8	2.4	4.0	4.5	3.8	5.3	5.7
Dec.....	2.3	4.5	NA	1.7	3.7	NA	3.0	4.0	NA	2.4	3.9	NA	3.7	5.4	NA

(1) Unemployment rates are not seasonally adjusted. Most recent data are preliminary and subject to revision.

(2) Primary Metropolitan Statistical Area, consisting of the City and 129 contiguous municipalities, with a population of approximately 3.4 million in 2000 according to U.S. Census data.

Sources: U.S. Bureau of Labor Statistics for United States, New England and Massachusetts and Massachusetts Division of Employment and Training for the City and Boston PMSA.



As the above table illustrates, 2001 monthly unemployment data showed a general increase over the same months in 2000 for Boston from March through December. Similarly, monthly data for 2002 shows an increase over 2001 for the months January through November. In November 2002, Boston's unemployment rate registered 5.2%, compared with the 4.7% mark one year earlier in November 2001. The number of unemployed in November 2002 equaled 15,799, having risen from 13,995 in November 2001. Unemployment clearly rose during the recession of 2001-2002.

### ***Largest Employers***

The following table lists the thirty-six largest private employers in Boston, the total list of organizations with more than 1,000 employees, which had an aggregate of approximately 21% of private sector employment in 2001.

#### **Largest Private Employers In Boston, 2001 (listed alphabetically)**

Beth Israel Deaconess Medical Center	Liberty Mutual
Boston College	Massachusetts Eye and Ear Infirmary
Boston Medical Center	Massachusetts Financial Services
Boston University	Massachusetts General Hospital
Brigham and Women's Hospital	New England Baptist Hospital
Brown Brothers Harriman	New England Financial
Carney Hospital	New England Medical Center
Children's Hospital	Northeastern University
Dana Farber Cancer Institute	Northwest Airlines
Delta Airlines	NSTAR (formerly Boston Edison)
Faulkner Hospital	Putnam Investments
Federal Reserve Bank of Boston	St. Elizabeth's Medical Center
Fidelity Investments	Shaw's
Filene's	State Street Corporation
Fleet Boston Financial	Stop & Shop Supermarkets
Gillette Company	Thompson Financial Services
Harvard University (Business and Medical)	US Air
John Hancock	WGBH

Note: The following large Boston companies were surveyed but did not respond and likely have over 1,000 employees: Boston Consulting Group, the Boston Globe, Citizen's Bank, Commercial Union Insurance, Liberty Financial Companies, Inc, Macy's, Pricewaterhouse Coopers LLP, Teradyne, UNNICO Services, and Verizon (formerly Bell Atlantic).

Source: Survey by BRA/EDIC, conducted in 2001.

In addition, the public sector has large numbers of employees in the City. According to the BRA, using a series consistent with the Bureau of Economic Analysis, there were 90,107 government workers in the City in 2001, a reduction of 8,817 from 1990. Certain state government offices, federal regional offices, U.S. Postal Service facilities, state-chartered authorities and commissions (such as the Massachusetts Port Authority and the Massachusetts Bay Transportation Authority), and the City's local government are all located within the City.

### ***Labor Force and Education***

According to U.S. Department of Commerce, Bureau of the Census, the City's resident labor force declined during the 1970s but increased during the 1980s. In contrast to the 12% decline in population between 1970 and 1980, the City's labor force (those residents aged 16 and over, available to work) declined by only 4%. The difference in these rates of decline was attributable to the fact that the decline in population was concentrated in the under-16 age group. Since 1980, the increase in the number and age of the population have combined with the rising labor force participation of women, minorities, youth and the elderly, to produce a larger labor force overall. By 1990, the City's population had increased by 2% over 1980 levels, while the City's labor force increased by 12.8% in the same period, according to data from the U.S. Bureau of the Census. During the 1990s Boston's population continued to rise, posting a 2.6%

increase between 1990 and 2000. During the same time period the City's labor force decreased by 4%, according to the Massachusetts Department of Employment and Training.

General improvement in educational attainment of residents aged 25 and over continued throughout the 1970-2000 period. The percentage of this population that had completed four or more years of college almost quadrupled during this period from 10% to 36%. This change, in part, reflected the trend for an increasing percentage of Boston public school system graduates to seek higher education. This percentage increased from 25% in 1960 to 36% in 1970, 76% in 2001, and 78% in 2002, based upon Boston School Department figures. Improving educational attainment levels and shifting occupational patterns suggest a concurrent transformation of the City's work force as the City's economy has moved to a service-dominated employment base.

The City supports entry-level and advanced job-training programs, including the following: English-as-a-Second Language training, pre-vocational and vocational training, adult literacy training, and support counseling. In addition, linkage contributions paid into the Neighborhood Jobs Trust provide a supplemental source of funding for job-training programs. For a full discussion of the City's housing and jobs linkage program see "The Linkage Program," below.

#### **Years of School Completed by Boston Residents, Age 25 and Over, 1970-2000**

	<b>1970</b>		<b>1980</b>		<b>1990</b>		<b>2000</b>	
	<u>Persons</u>	<u>Percent</u>	<u>Persons</u>	<u>Percent</u>	<u>Persons</u>	<u>Percent</u>	<u>Persons</u>	<u>Percent</u>
Less than nine years.....	91,582	26.1%	54,932	16.6%	37,824	10.3%	34,321	9.1%
9 to 12 years, no diploma.....	71,511	20.4	49,407	14.9	51,051	14.0	45,308	12.0
High school grad. (or GED) .	120,350	34.3	115,787	35.0	97,233	26.6	90,568	24.0
Some college or Associates ..	30,876	8.8	43,451	13.2	69,889	19.1	73,125	19.4
Bachelors, Masters, or Prof. .	<u>36,245</u>	<u>10.4</u>	<u>67,073</u>	<u>20.3</u>	<u>109,711</u>	<u>30.0</u>	<u>134,252</u>	<u>35.5</u>
Total.....	350,564	100.0	330,650	100.0	365,708	100.0	377,574	100.0

Source: U.S. Department of Commerce, Bureau of the Census.

#### ***Income, Wages, and Cost of Living***

Per capita personal income for Suffolk County was \$41,498 in 2000, 39% above the national per capita personal income of \$29,770, according to the U.S. Bureau of Economic Analysis. An historical summary of per capita income shows that from 1980 to 1990 Suffolk County's per capita income grew at a rate greater than that for the nation, in contrast to the 1970-1980 period when it rose at a slower rate. Suffolk County's per capita income grew at a faster rate than the per capita income growth rates for the United States, New England, and Massachusetts, and just barely below the rate of growth for Metropolitan Boston (as defined in the table below) between 1990 and 1997. The City's median household income (in current year dollars), based on U.S. Census data, rose from \$7,835 in 1970, to \$12,530 in 1980, \$29,180 in 1990, and \$39,629 in 2000. The figures in this paragraph and the chart directly below reflect earned income of persons residing in the named areas plus rents, interest and other unearned income and transfer payments from governmental entities. As such, these figures take into account certain income sources not included in the survey of average annual wages in the following paragraph, which reflects earned income of persons who work (but do not necessarily reside) in the named areas.

**Per Capita Personal Income Comparison, 1970, 1980, and 1990-2001**  
(in current year dollars not adjusted for inflation)

	<u>United States</u>	<u>New England</u>	<u>Massachusetts</u>	<u>Metro Boston<sup>(1)</sup></u>	<u>Suffolk County<sup>(2)</sup></u>
1970.....	\$ 4,095	\$ 4,453	\$ 4,486	\$ 4,515	\$ 4,652
1980.....	10,183	10,701	10,673	10,806	10,477
1990.....	19,572	22,884	23,208	23,545	24,826
1991.....	20,023	23,175	23,671	24,003	25,655
1992.....	20,960	24,299	24,731	25,135	27,152
1993.....	21,539	24,984	25,453	25,835	27,912
1994.....	22,340	25,928	26,559	26,994	29,303
1995.....	23,255	27,040	27,689	28,192	30,127
1996.....	24,270	28,340	29,166	29,668	31,808
1997.....	25,412	29,924	30,773	31,368	33,260
1998.....	26,893	31,829	32,714	33,411	36,044
1999.....	27,880	33,226	34,322	35,287	37,752
2000.....	29,770	36,167	37,960	38,758	41,498
2001.....	30,472	37,115	38,907	NA	NA

(1) Metropolitan Boston denotes the New England County Metropolitan Area (NECMA), which is larger than the Primary Metropolitan Statistical Area (PMSA). The NECMA consists of five Massachusetts counties and Hillsborough County in New Hampshire. Known as Boston-Worcester-Lawrence-Lowell-Brockton, MA-NH (NECMA).

(2) City residents constitute approximately 87% of Suffolk County's population.

Source: U.S. Dept. of Commerce, Bureau of Economic Analysis, September 23, 2002 revised series, Regional Economic Information System

December 2002 data from the U.S. Bureau of Economic Analysis indicate that the average annual wage per job for 2001, by place of work, have been consistently higher over time in Suffolk County than in the Boston metropolitan area and the Commonwealth. Suffolk County's average wage per job (\$57,692) was 28% greater than that in the Boston metropolitan area (\$45,009) and 31% greater than the average state earnings level (\$43,943). The average annual wage per job reflects the combined income earned by individuals at their place of work for all industries combined.

**Average Wage Per Job Comparison, 1970, 1980, 1990, 2000 and 2001**  
(in current year dollars not adjusted for inflation)

	<u>United States</u>	<u>Massachusetts</u>	<u>Metro Boston<sup>(1)</sup></u>	<u>Suffolk County<sup>(2)</sup></u>
1970.....	\$ 6,922	\$ 7,038	\$ 7,051	\$ 7,789
1980.....	13,997	13,524	13,643	15,468
1990.....	23,322	26,289	26,681	31,266
2000.....	34,647	43,261	44,382	55,576
2001.....	35,550	43,943	45,009	57,692

(1) Metropolitan Boston denotes the New England County Metropolitan Area (NECMA), which is larger than the Primary Metropolitan Statistical Area (PMSA). The NECMA consists of five Massachusetts counties and Hillsborough County in New Hampshire. Known as Boston-Worcester-Lawrence-Lowell-Brockton, MA-NH (NECMA).

(2) City residents constitute approximately 87% of Suffolk County's population.

Source: U.S. Dept. of Commerce, Bureau of Economic Analysis, December 30, 2002 revised series, Regional Economic Information System

During the years 1991-2000, based on the U.S. Bureau of Labor Statistics Consumer Price Index, the cost of living index rose at an annual average rate of 2.66% in the Boston metropolitan area, while the national index increased at a 2.64% annual rate. In 2001 the index for Boston rose at 4.3% while the national rate grew by 2.8%. From November 2001 to November 2002, the cost of living in the Boston metropolitan (Boston PMSA) area rose 4.0%, compared to a 2.2% rate rise for the nation.

**Consumer Price Index for All Urban Consumers  
(CPI-U)**

	United States	Percent	Metro Boston	Percent
	<u>Index</u>	<u>Change</u>	<u>Index</u>	<u>Change</u>
1991.....	136.2	NA	145.0	NA
1992.....	140.3	3.0%	148.6	2.5%
1993.....	144.5	3.0	152.9	2.9
1994.....	148.2	2.6	154.9	1.3
1995.....	152.4	2.8	158.6	2.4
1996.....	156.9	3.0	163.3	3.0
1997.....	160.5	2.3	167.9	2.8
1998.....	163.0	1.6	171.7	2.3
1999.....	166.6	2.2	176.0	2.5
2000.....	172.2	3.4	183.6	4.3
2001.....	177.1	2.8	191.5	4.3
2001 (November).....	177.4	NA	192.7	NA
2002 (November) .....	181.3	2.2	200.4	4.0

Note: Index based upon 1982-1984=100.0.

Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

**Population**

The U.S. Bureau of the Census reported the City's population as 589,141 in 2000, a 2.6% increase over 1990 and building on the 2.0% increase in the 1980s. The number of households in the City increased from 217,622 in 1970, to 218,457 in 1980, to 228,464 in 1990, and to 239,528 in 2000, while household size fell from 2.8 to 2.3 persons per household from 1970 to 2000. The U.S. Bureau of the Census population for Massachusetts in 2000 was 6,349,097, or an increase of 332,672 persons (5.5%) from the 1990 census. The population of metropolitan Boston rose to 3,398,051 in 2000, a rise of 170,344 persons or 5.3% over the decade. The only recent estimates from the U.S. Census Bureau since the 2000 Census are for states while metropolitan area and city data have not yet been released. The population estimate for Massachusetts as of July 1, 2002 was 6,427,801, a gain of 1.2% over April 2000

**Population of Massachusetts, Metropolitan Boston,  
and the City of Boston 1970, 1980, 1990 and 2000**

	<u>1970-80</u>		<u>1980-90</u>		<u>1990-00</u>	
	<u>Population</u>	<u>Percent</u>	<u>Population</u>	<u>Percent</u>	<u>Population</u>	<u>Percent</u>
	<u>Change</u>	<u>Change</u>	<u>Change</u>	<u>Change</u>	<u>Change</u>	<u>Change</u>
Massachusetts	5,689,170	5,737,037	6,016,425	6,349,097	47,867	0.8%
Metropolitan Boston <sup>(1)</sup>	2,899,101	3,149,000	3,227,707	3,398,051	— <sup>(2)</sup>	— <sup>(2)</sup>
City of Boston	641,071	562,994	574,283	589,141	(78,077)	(12.2)
					11,289	2.0
					14,858	2.6

(1) Boston PMSA.

(2) Because of a metropolitan area boundary change from Standard Metropolitan Statistical Area ("SMSA") to PMSA, the 1970-1980 change is not shown

Source: U.S. Department of Commerce, Bureau of the Census.

Data from the 2000 Census (Summary File 1) were reported to Boston in 2001 and some information regarding the demographic and housing characteristics of Boston's resident population are available. Changes in racial patterns showed that Boston's racial composition was: White, Non-Hispanic 49.5%; Black, Non-Hispanic 23.8%; Hispanic 14.4%; Asian/Pacific Islander 7.5%; Multi-racial 3.1%; other single race 1.4%; and Native American 0.3%. Within the Asian/Pacific Islander classification, the largest growing groups were the Vietnamese, Chinese, Asian Indian, and Korean groups. Within the Hispanic classification the fastest growing groups were the Central and South Americans with a small but fast-growing Mexican community. Boston continues to be a city of young adults due to the large number of students and young adults living and working in the city. One out of every three persons in Boston is between 20 and 34 years old. The baby boom population (aged 35 to 54 years) increased significantly, to 20%, as that cohort aged and continued to show a preference for city living. The City saw a decline in the elderly population (aged 65 and over) between 1990 and 2000 as that segment declined by nearly 5,000 people to 10% of the population. Boston showed a general rise in the number of children as that population (aged 18 and under) increased by over 6,700 persons to 20% of the population. The trend toward fewer families of related people living together to more non-family households comprised of single persons and

roommates, continued in Boston in the 1990s. There was also a trend toward more “non-traditional” families as the data showed more relatives and non-relatives other than the householder and spouse living in families. Overall, the total number of households rose. Single-person households continued to grow. Families with children under 18 also grew, although married couples with young children fell because of the continued trend toward single-parent families with children. Children over 18 living with their families showed an upward trend as college students commuted in increasing numbers, and the cost of housing kept older children at home longer. Group quarters population continued to increase both for the institutionalized and non-institutionalized populations, the vast majority of which is the student dormitory population. Household size has only fallen by 2.5%, going from 2.37 persons to 2.31 despite the large growth in single person-households. Average family size edged only marginally lower from 3.19 to 3.17 persons.

### ***Medical and Higher Educational Institutions***

Boston’s medical and educational institutions are an important component of its economy, providing employment opportunities for residents of the City and the Boston metropolitan area. Expenditures by the institutions’ patients, students and visitors are important to the City’s trade and service sectors.

Twenty-two inpatient hospitals are located within the City, including Massachusetts General Hospital, Brigham and Women’s Hospital, Beth Israel/Deaconess Hospital, Children’s Hospital, the New England Medical Center and Boston Medical Center. These hospitals had a combined total of 5,888 beds in 2000 with total expenses of over \$5 billion. In 2000 the hospitals saw 217,000 in-patients, had over 3.8 million out-patient visits, and witnessed over 22,000 births according to data from the American Hospital Association. The City is also the home of the medical and dental schools of Harvard, Tufts and Boston Universities, and of twenty-five public neighborhood health clinics, not including health maintenance organizations and membership clinics.

In 2001 there were an estimated 96,679 persons employed in health services in the City, based on a series consistent with U.S. Bureau of Economic Analysis data. Health services represent over 1 out of every 7 jobs within the City. Growth in the health services sector has been stable, despite varying economic conditions. Data from the Massachusetts Department of Employment and Training showed that the number of hospital employees in Boston between 2000 and 2001 grew from 56,519 to an estimated 58,145.

According to the BRA, the City’s hospital and medical school community invested close to \$1.1 billion in new facilities from 1984 to 1999. Large new projects were completed over the 1984-1996 period at the following City hospitals: Massachusetts General Hospital, Beth Israel/Deaconess Hospital, Brigham and Women’s Hospital, Boston Medical Center, St. Elizabeth’s and New England Medical Center. In 1996-1997 several hospital projects were completed including a Dana Farber research building and a Beth Israel ambulatory care facility. In 1999 the Shriner’s Burns Institute’s new building and the Franciscan Hospital gymnasium were completed. Tufts University completed a \$40 million biomedical research building and nutrition center of 146,800 square feet in 2002. Also in 2002 the Harvard Institutes of Medicine completed the redevelopment of the former English High School into medical research space with a \$120 million, 435,000 square-foot building.

As of January 2003, there were five hospital/medical center projects, and three medical research projects under construction or set to begin. In the Longwood medical area, Children’s Hospital has two buildings under construction, a medical research building and a clinical building totaling 440,000 square feet. In addition, Emmanuel College has two medical research buildings scheduled: a building of 300,000 square feet to be occupied by the Merck pharmaceutical company has begun construction, and another research building of 166,000 square feet is expected to start construction in 2003. Massachusetts General Hospital has also begun work on a \$320 million new 420,000 square-foot ambulatory care facility with a 220,000 square-foot outpatient clinic and a 725-car garage. Also under review are Brigham and Women’s Hospital proposed 350,000 square-foot Center for Advanced Medicine, the Joslin Diabetes Center’s proposed 246,300 square-foot expansion project, and a medical research building proposed for 420 Rutherford Avenue.

Based on data from the National Institutes of Health for fiscal 2001, the City is the nation’s largest center for health research, topping New York City for the sixth consecutive year. For fiscal 2001, the medical research institutions within Boston received \$1.22 billion in National Institutes of Health awards.

This was a 12.7% increase from fiscal year 2000. According to the National Institute of Health Division of Research Grants, Boston was home to the top five and seven of the top fourteen independent hospitals in the nation receiving research funding in fiscal 2001. In addition to public monies for medical research, the Boston institutions also have private funding sources through agreements with private-sector firms.

Boston is one of the nation's largest centers of medical research activities and biotechnology industries. In Massachusetts, one of the leading biotechnology centers in the United States, there were over 215 companies engaged in research and development and manufacturing of biotechnology products as well as scientific, equipment, supplies and support services to the industry, according to the Massachusetts Biotechnology Council. The Ernst & Young annual biotechnology industry report, "Convergence, Millennium Edition, 2000," showed the New England Region as the nation's second largest center for biotechnology by number of publicly-traded companies (53), total assets (\$7.3 billion), and R&D spending (\$1.5 billion), as well as the nation's third largest center as ranked by product sales (\$2.3 billion), and total revenues (\$3.2 billion) and the nation's fourth largest center as ranked by employees (18,395).

As of academic year 1999-2000, the New England Board of Higher Education reported 74 colleges and universities in the Boston metropolitan area (PMSA), with a student enrollment of approximately 269,540 students. The City's 36 universities, colleges and community colleges had a combined enrollment in Autumn 1999 of approximately 135,125, a 6.1% gain from the Autumn of 1990. These numbers include some graduate schools of Harvard and Tufts Universities, whose principal campuses are in Cambridge and Medford but which, respectively, had 5,095 students enrolled in the City in 2000. Based on total graduate and undergraduate enrollment, Boston University was the largest university in Boston in the Autumn of 2000, with 28,318 students.

Educational institutions are a source of new highly skilled professionals for the City's labor force. For example, according to the Massachusetts Institute of Technology, although only 10% of its enrollees over the decade of the 1980s were from the Boston area, 24% remained in the area after graduation.

From 1991 through 1998, according to the BRA, large projects at educational institutions in the City accounted for approximately \$300 million of investment. These included new construction at Boston University, Northeastern University, Tufts University, Boston College, the Massachusetts College of Pharmacy, and Harvard University, as well as major renovations by Emerson College and Suffolk University. Projects completed in the last decade include: the Boston University School of Management and the Boston University Photonics Center; Emerson College dormitory and administration space in renovated buildings; Suffolk University dormitory space; and, at Northeastern University, the Marino Recreation Center and an Engineering and Science building. In 1999 Suffolk University completed its new \$65 million Law School on Tremont Street in downtown Boston.

Since 1990, Boston's colleges and universities have added 10,511 dormitory beds? the equivalent of approximately 2,600 apartment units. A number of dormitory and academic facilities are also planned for development, are currently being constructed, or have recently been completed. In 2000 Boston University completed an 819-bed dormitory, and Northeastern University completed two smaller dormitories that added 470-beds. Subsequently, Boston University completed a renovation of 575 Commonwealth Avenue that added 221 rooms, and Northeastern completed several additional projects: a new dormitory with 630 beds; 15-unit Shawmut estates; the \$51 million Davenport Commons with 585-beds, 60 affordable condominiums, and 2,100 square feet of retail space; and 780 Columbus Avenue, with 114 beds. Wentworth Institute opened a new 475-bed dormitory at 610 Huntington Avenue in 2001. Mass College of Art completed a 9-story, 600-bed dormitory in 2002. Boston College, in its recently submitted master plan, is proposing to add almost 1,000 dormitory beds. Boston University's master plan for the site of the former Commonwealth Armory includes an additional 1,200 dormitory beds, as well as a new sports arena and recreational center. Northeastern University has broken ground for the new \$33 million, 120,000 square-foot Behrakis health sciences complex. Emerson College has undertaken construction of its new \$40 million, 11-story, 80,000 square-foot Performing Arts Center on Allen's Alley adjacent to the Emerson Majestic Theater on Tremont Street, and also plans to build a 14-story dormitory and student center on Boylston Street at Piano Row. UMass-Boston has a new \$75 million, 360,000 square-foot Campus Center under construction, and is also planning new on-campus housing for 2,000 students. Several other project are also planned: Simmons College has proposed a 60,000 square-foot Graduate Center; Suffolk University has announced that it plans to build more student housing.; and at Boston University a surgical teaching

facility is under construction, and a new sciences building plan is under review. A five-year expansion and retrofit program is underway at the Harvard University Business School in Allston, and new executive student housing and a new student center that are part of that program have already been completed.

### ***Tourism***

According to the Greater Boston Convention and Visitors Bureau (“CVB”), an estimated 12.6 million people visited the Boston metropolitan area in 2001. This represents a reduction of 6% from the 13.5 million visitors in 2000, but an increase of 13.5% over the 11.1 million who visited in 1997. These data represent visitors, measured as tourists, business travelers, and convention and meeting delegates, who traveled at least 100 miles to get to the City. The latest data on the economic impact of tourism from the CVB shows that, for the five county region of greater Boston, visitors spent an estimated \$7.5 billion for hotel accommodations, meals, entertainment, shopping, transportation and other services during 2001. The latest data for Suffolk County indicates that in the county alone the total domestic direct traveler impact in 2000 was \$5.6 billion, supporting 55,520 jobs and a payroll of \$1.6 billion, while generating \$139 million in state tax receipts and \$92 million in local tax receipts.

In recent years several large tourist events have taken place in Boston. In July 1992, Sail Boston, the tall ships flotilla, drew an estimated 6 million attendees, including visitors (as defined above) and local residents. During the Summer of 1994, greater Boston was a regional host of the World Cup soccer championship. In April 1996, the 100<sup>th</sup> anniversary of the Boston Marathon attracted a record field of 38,708 runners and an estimated 750,000 spectators along the route, with 150,000 of them at the Copley Square finishing line. In August 1998, the 200th Anniversary of the refurbished frigate USS Constitution, “Old Ironsides,” was celebrated with a gala three-day event with other tall ships from around the world in attendance. Also in 1998, the “Monet in the 20<sup>th</sup> Century” exhibition at the Museum of Fine Arts, the only showing in the United States, topped all museum exhibits in the United States with almost 566,000 visitors. In 1999 Boston was the site of Major League Baseball’s All Star game. In 2000 the City held a large celebration, Millennium 2000, lasting several days, and Sail Boston 2000, which attracted over 4 million people to the waterfront for a parade of Tall Ships. In January 2001 Boston’s FleetCenter hosted the US Figure Skating Championships, and attracted 108,000 visitors. During 2002 Boston’s 105<sup>th</sup> Marathon drew an estimated 1 million visitors, and the annual Head of the Charles Regatta drew an estimated half-million attendees. In addition, every year there are a wide variety of special events in Boston including food, cultural, and musical events, ethnic celebrations, harbor, seaport and river festivals, parades, and collegiate and professional sporting contests that attract many visitors.

The City of Boston is home to three major professional sports teams—the Boston Red Sox baseball team, the Boston Bruins hockey team and the Boston Celtics basketball team. The Boston Red Sox currently plan to renovate and add seating to Fenway Park. See “City Indebtedness—Capital Planning and Borrowing Program—Fenway Park Project.”

The City provides venues for concerts, ice shows, circuses, plays, and other entertainment performances and sports events. The FleetCenter, a new privately-financed, multi-purpose arena in Boston’s North Station District constructed by the New Boston Garden Corporation, a subsidiary of Delaware North, owner of the former Boston Garden/North Station, opened on September 30, 1995. In the Autumn of 2002 the Democratic National Committee signed an agreement to convene the 2004 Democratic Party Convention at the FleetCenter in July 2004. Also, after five consecutive years in New York City, the annual east coast Macworld Conference and Expo computer show has agreed to return to Boston in the Summer of 2004.

Boston is an attractive destination for conventions, meetings, and trade-and-gate shows. Currently Boston has three small and medium convention sites: the John B. Hynes Veterans Memorial Convention Center, the World Trade Center, and the Bayside Exposition Center. Together, these facilities have a combined capacity of over one million people per year. In addition, as more fully described in the Official Statement, the Massachusetts Convention Center Authority (“MCCA”) and the City are developing a new 1.6 million square-foot convention and exhibition center in Boston that will provide facilities suitable for large national conventions. In 2002 Boston was projected to host 2.79 million convention and meeting visitors at over 300 events—meetings, conventions and expositions—including a total of 13 citywide

conventions: these are defined as events that would each use over 2,000 hotel rooms on the peak night, which usually requires at least three hotels.

Several cultural institutions are pursuing development plans that are either currently proposed, approved, or under construction. The New England Aquarium is in the midst of an expansion plan and some of the project has been completed, including the new Simons IMAX Theater. The Museum of Fine Arts is planning a 462,400 square-foot expansion, and this is currently under review. An Islamic Cultural Center in the Roxbury neighborhood is BRA Board-approved. The Boston Center for the Arts is now constructing an \$18 million, 37,000 square-foot addition to its South End facility. Clear Channel, Inc. is seeking to gain approval for its plan to renovate The Boston Opera House on Washington Street, the 106,000 square-foot theater in the Downtown district. For the long term, the Massachusetts Horticultural Society is attempting to obtain funding to build a "Garden Under Glass" on a parcel atop the Central Artery. For a description of the depression of the Central Artery see "Large Public Sector Projects," below. Also, the Fan Pier development approved for the Fort Point Channel area will include a new Institute for Contemporary Art.

### ***Hotel Market***

Boston's favorable hotel market over the 1992-2000 period stimulated considerable new development. The number of hotel rooms in the City increased from 6,907 in 1980 to 12,136 as of July 1997—an increase of 76%. Between July 1997 and December 1999 eight new hotels and four expansion projects were completed, adding a total of 1,537 rooms. The largest hotel completed in 1998 was the Seaport hotel, with 427 rooms, adjacent to the World Trade Center on the South Boston waterfront. In 1999 three new hotels and one expansion were completed: the Wyndham Boston Hotel, a 362-room renovation of the former Batterymarch building at 89 Broad Street; The Club by Doubletree near the Bayside Expo Center, with 212 rooms; the rebuilding of the Airport Hilton in East Boston with 87 net new rooms; and the 38-room expansion of the Bostonian Hotel adjacent to the Faneuil Hall Marketplace. Three additional hotels were completed in 2000: a conversion of 15 Beacon Street into 61 boutique rooms; a conversion of the former Don Bosco High School into The Club by Doubletree, with 268 rooms; and the small conversion (reuse) project, 13-room Beacon Hill Hotel. During 2001 and the first six months of 2002, an additional five hotels have been completed: the Best Western "Roundhouse," with 92 rooms in the South End/Roxbury; the Ritz on the Common with 191 luxury suites at Millennium Place; Millennium Place Extended Stay, with 63 rooms; the Charlesmark Hotel, a 33 room hotel on Boylston Street; and the Nine Zero, a luxury 190-room hotel on Tremont Street..

As of the beginning of July 2002 there were an additional seven hotels under construction, representing another 1,186 rooms: Commonwealth Hotel, a 149-room hotel in Kenmore Square; Embassy Suites, with 272 rooms, in East Boston; 88 Exeter Street, with 90 rooms in the Back Bay; Kimpton Boutique hotel on Portland Street in the North Station district, with 112 rooms; and the Marriott Residence Inn, a 168-room hotel at Tudor Wharf on the Charlestown waterfront; Jurys Doyle Saunders Hotel in the old Police Headquarters on Berkeley Street in the Back Bay, with 220 rooms; and the Hampton Inn/Crosstown Hotel with 175 rooms on Melnea Cass Boulevard on the border of the South End and Roxbury. During 2000-2002 applications were filed with the BRA to construct twenty new hotel projects, representing a total of 6,359 rooms. Many of these applications are currently in the approval process, including a 1,200-room convention center hotel to be constructed by Starwood Hotels and Resorts adjacent to the Boston Convention and Exhibition Center ( the "BCEC Project"). For a description of the BCEC Project see "Large Public Sector Projects," below. With the economic slowdown and the War on Terrorism affecting the travel industry, several of these hotel projects in the approval process have either temporarily suspended pending action, or have announced that their completion schedules would be pushed farther into the future.

Between 1991 and 2000, average annual occupancy rates grew steadily from 65.4% to 78.6% and average daily room rates rose steadily from \$108.29 to \$200.10. Calendar 2001 brought a more challenging environment for the hospitality industry as a slowing economy combined with the events of September 11<sup>th</sup> to dampen hotel market performance in Boston. According to Pinnacle Advisory Group, through November 2002 Boston's hotel occupancy stood at 73.8%, compared with 71.7% for the same eleven months in 2001. Through September, however, the average daily room rate equaled \$167.44, compared with \$182.69 for the same period in 2001.



## ***Transportation***

The City is a major national and international air terminus, a seaport, and the center of New England's rail, truck, and bus service. The City is served by three limited-access interstate highways which connect it to the national highway system: U.S. 90 (the "Massachusetts Turnpike"), which leads westward from downtown Boston 138 miles to the New York State border; U.S. 95, the East Coast's principal north-south highway, which connects Boston to Portland, Maine to the north and New York City and Washington, D.C. to the south; and U.S. 93, another north-south interstate highway that extends from just south of the City north to New Hampshire and Maine. The City is also served by two national railroads, Amtrak and Conrail, a regional rail carrier, Boston and Maine (a subsidiary of Guilford Transportation Industries), and Bay Colony, a local carrier.

Transportation planning includes both major highway and mass transit programs. Federal transportation legislation has enabled the Massachusetts Bay Transportation Authority ("MBTA"), which provides commuter rail, subway, local bus and express bus services to 175 cities and towns in eastern Massachusetts, to provide transit alternatives to a population of 2.8 million people in a service area of 1,038 square miles. The MBTA, the fourth largest mass transit system in the nation as determined by ridership, currently serves about 1.2 million passengers per day.

The capital program of the MBTA (Capital Investment Program) totals approximately \$3.2 billion over fiscal years 2003-2008, averaging about \$529 million per year. Approximately \$1.79 billion of revenue bonds will be issued to fund MBTA capital expenditures, approximately \$132 billion of capital expenditures will be funded through federal grants, and approximately \$62 million of capital expenditures will be funded with pay-as-you-go capital funding, state reimbursement, and other project financing.

The five-year Capital Investment Program consists of four major programmatic areas: (i) reinvestment in infrastructure (\$2.07 billion); (ii) accessibility improvements (\$156 million); (iii) enhancement of existing service (\$266 million); and (iv) system expansion efforts (\$683 million). Capital Investment Program spending by transportation mode is as follows: subway, \$1.17 billion; commuter rail, \$574 million; Silver Line, \$302 million; bus, \$378 million; and systemwide, \$752 million.

Infrastructure improvements refer to vehicles, track/right-of-way, signals, communication, power, maintenance facilities, stations, facilities, bridges, and fare equipment. The major infrastructure spending will take place on revenue vehicles (\$707 million); station modernization primarily on the Red and Blue lines (\$325 million); rail signaling systems (\$197 million); maintenance facilities, including rail car houses and bus garages (\$171 million); track/right-of-way (\$142 million); and fare equipment (\$124 million).

Several specific system enhancement projects are underway. Current efforts are devoted towards the North Station Transportation Center, serving the Orange Line and Green Line subways, where an enhancement of the Green Line/Orange Line transfer station is underway. To date, \$145 million has been spent on this project in Phases one and two, while the next two phases are expected to require \$107 million until project completion in fiscal year 2007. Another system enhancement project is a \$10 million effort to support community planning and design efforts necessary to light-rail vehicle service along the Arborway corridor. The current plan has expended \$36 million in parking facilities, and devotes another \$66 million toward parking over the next six fiscal years. The most significant efforts are the construction (nearly complete) of a new station with over 2,400 spaces in Woburn, and the planned expansion of the North Quincy Garage with 1,189 spaces for park-and-ride passengers on the Red Line subway, while the majority of the other parking projects are located at commuter rail stations.

Since 1985 the MBTA has pursued large-scale commuter rail system expansion projects, including new rail service to Worcester, Middleborough, Plymouth, and Newburyport. The current plan programs \$421 million toward the expansion of the commuter rail system, 66% of expansion expenditures overall. The majority of the funding is devoted to the rehabilitation of the Old Colony Greenbush Branch, with \$44 million expended and \$351 million planned for future expenditure over six years. This project consists of the construction of 17.1 miles of track, 7 stations, a layover facility, a tunnel through historic Hingham Square, and the purchase of rolling stock. The New Bedford/Fall River Extension (Phase 1) includes design and construction to support extension of MBTA services to New Bedford and Fall River. To date, \$24 million has been spent, and \$16 million of additional work is planned. Current efforts include rehabilitation

of bridges in New Bedford and Fall River. Other efforts include the completion of three projects that include the Newburyport/Rockport Extension, the Worcester Commuter Rail extension, and the Old Colony rehabilitation on the Middleborough and Plymouth lines.

Finally, the major MBTA subway enhancement project is the Silver Line development. The MBTA is constructing the Silver Line to operate as part of its core downtown transit system. This Silver Line will combine bus rapid transit services along Washington Street (through the Downtown, Chinatown, South End, and Roxbury neighborhoods) and bus rapid transit services along the South Boston Piers Transitway (on the South Boston waterfront) into a single line. There are four projects currently related to the Silver Line. One project (a joint project with the Massachusetts Highway Department (MHD) is for the design and reconstruction of Washington Street from Dudley Square to Downtown, and includes 14 new stations that opened in July 2002. Two projects are related to the South Boston Piers Transitway, a one-mile long tunnel extending from South Station to the pier area with three stations—South Station, Courthouse Station, and World Trade Center Station—scheduled to open in 2003. The remaining project involves conceptual planning and design to eventually connect Washington Street and the South Boston Piers Transitway with Silver Line passenger service. The new Silver Line will provide connections between residential neighborhoods and job centers in the Financial District and the new South Boston waterfront. So far a total of \$443 million has been spent on these four Silver Line projects. The current six-year spending program for this Silver Line project is \$248.7 million, 36% of the MBTA system-wide expansion effort.

Since 1991 Amtrak has spent \$1.8 billion on a multi-year, high-speed rail infrastructure project intended to provide better ride quality, permit faster train speeds, and increase capacity for passengers on the rail corridor between Boston and New York. A key component of infrastructure upgrades was electrification of the remaining segment of the Northeast Corridor rail line between New Haven and Boston, which became operational in 2000. Amtrak has taken delivery on 19 of 20 new Acela Express high-speed trains, and on all 15 high-horsepower electric locomotives. The new rolling stock reduces rail travel time from downtown Boston to downtown New York City to three hours and twenty-five minutes—which is competitive with air travel. When combined with all other planned infrastructure improvements over the next five years, the new high-speed trains will further reduce travel time to approximately three hours and fifteen minutes. The equipment contract also included construction of three new maintenance facilities servicing the trains and locomotives. One of these maintenance facilities, completed in 1999, is located in Boston at Southampton Yard. Ridership between New York and Boston has grown significantly as a result of the new high-speed service, despite the general downturn in the economy and regional travel. In fiscal year 2002 Amtrak carried 832,500 passengers between New York and Boston, up 20% over the previous year. The new Boston—Portland, Maine passenger rail service (the “Downeaster”) commenced December 15, 2001. The 250-passenger train runs four times daily in each direction between North Station and Portland. The trip takes 2 hours and 45 minutes, and makes intermediate stops in Haverhill, Massachusetts, Exeter, Durham, and Dover, New Hampshire, and Saco, Wells, and Old Orchard Beach Maine. The roundtrip fare from Boston to Portland, Maine is \$35. The train has become extremely popular, and ridership is exceeding projections.

Water transportation has also become a significant factor in transportation within Boston Harbor. Currently seven operators provide water transit services to approximately 1.5 million riders annually, with ambitious plans for future expansion.

For a description of the depression of the Central Artery and the construction of a third tunnel under Boston Harbor, two other significant transportation projects in the City, see “Large Public Sector Projects,” below.

### ***Seaport and Airport***

The Massachusetts Port Authority (“Massport”) was created by the state legislature to develop and manage the City’s major air and sea transportation centers, and the Tobin Memorial Bridge over the Mystic River. Massport is financially independent, and the City is not responsible for any debt or other obligations incurred by Massport. Heavy use of Boston Logan International Airport (“Logan Airport”) and the Port of Boston has compelled significant expansion of both facilities. Massport’s net investment in its facilities through June 2002 exceeded \$2.24 billion, consisting of \$1.69 billion invested in airports and \$550 million invested in the Tobin Bridge, maritime development and other capital projects.

The Port of Boston serves the six-state New England region as a natural deep-water berth, and provides access to world ports as well as feeder service several times weekly to Halifax, Canada and the Port of New York. The City's port activity includes handling bulk and general cargo, providing ship repair supply services, offering customs and international trading services, providing storage facilities, and other commercial maritime services.

The City's port tonnage fell from the 1950s through the 1990s as a result of changes in transportation technology and in the regional economy. In 2001, according to the U.S. Army Corps of Engineers, the Port of Boston ranked as the 28th largest American coastal seaport by total tonnage shipped and as the 27<sup>th</sup> largest American coastal seaport by foreign tonnage shipped. During fiscal 2002 the Port of Boston handled 201 container vessels with 939,913 metric tons of cargo, and 85 auto vessels with 89,202 automobiles. From July through November 2002 container tonnage totaled 474,608 metric tons, up 27% from the same period in 2001; automobiles handled were down by 29% for the five-month period.

The Port of Boston is now a major cruise port that in fiscal 2002 hosted ships carrying 248,790 passengers—a gain of 34% over the 186,070 passengers in fiscal 2001. Cruise vessel calls also rose by 16% to 149 from 129. The cruise port runs mainly from May through October.

In 1996 the BRA and Massport produced a Seaport Economic Development Plan for Boston Harbor which provides policies and guidelines for future development planning along Boston's waterfront. The plan is currently being implemented.

In calendar 2002 Logan Airport served a total of 22.7 million passengers, a decline from the 24.5 million passengers served in 2001. A 2001 report prepared by Airports Council International ("ACI") showed that Logan Airport was the most active airport in New England, the 19<sup>th</sup> most active in the United States, and the 32<sup>nd</sup> most active in the world.

Logan Airport also plays an important role as a center for processing domestic and international air cargo. According to ACI, Logan Airport ranked 18<sup>th</sup> in the nation and 41<sup>st</sup> in the world in total air cargo volume in 2001. Between calendar 1999 and 2001 the total volume of air cargo (combined express/freight volume) handled at Logan Airport grew by 4%. In fiscal 2001 total combined cargo and mail volume was 930.4 million pounds, and in 2002 cargo fell by 16% to 842.2 million pounds.

In January 2003 Massport projected that it would spend about \$1.25 billion during fiscal years 2003-2007 for ongoing capital improvements to Hanscom Field, Logan Airport, the Tobin Memorial Bridge, and the port facilities, and for improvements and major maintenance at various other Massport properties. Massport currently expects to finance these projects with a combination of bond proceeds, passenger facility charges, federal grants and internally generated funds. The capital program is currently at about \$250 million per year. The plan to add a new runway at Logan airport was approved by state and federal authorities, but is being challenged in court proceedings. See "Large Public Sector Projects," below.

### ***Construction Activity***

Since 1960 the public and private sectors have carried out a major expansion of capital construction and investment activity. Private commercial development investment has added approximately 30 million square feet of office space to the physical inventory of the City since 1960—eight times the amount built in the previous 35 years.

The following table sets forth the estimated potential construction activity in the City from fiscal years 1993-2002, estimated as indicated in the notes to the table. It should be noted that the issuance of a building permit and payment of a fee do not necessarily result in construction activity.

Revenue from building permit fees during fiscal 2002 indicated that the estimate of total potential construction activity was \$2.24 billion. Revenue from building permit fees increased in all but four of the fiscal years between 1993 and 2002.

**Boston Building Permit Revenues and Estimated Potential Construction Activity  
Last Ten Fiscal Years, 1993-2002**

	<b>Building Permit Revenues<sup>(1)</sup></b>	<b>Estimated Potential Construction Activity<sup>(2)</sup></b>	<b>Estimated Potential Construction Activity Adjusted For Inflation<sup>(3)</sup></b>
1993.....	8,832,324	1,039,096,908	1,319,564,145
1994.....	9,039,951	1,063,523,647	1,335,636,143
1995.....	7,629,395	897,575,882	1,095,837,897
1996.....	11,777,653	1,385,606,235	1,647,863,396
1997.....	9,199,877	1,082,338,471	1,244,979,672
1998.....	14,757,703	1,736,200,395	1,956,267,852
1999.....	11,404,006	1,341,647,713	1,486,524,089
2000.....	17,922,648	2,108,546,846	2,257,151,424
2001.....	27,191,839	3,199,039,882	3,265,051,816
2002.....	<u>19,055,144</u>	<u>2,241,781,647</u>	<u>2,241,781,647</u>
Total.....	<u>\$136,810,540</u>	<u>\$16,095,357,627</u>	<u>\$17,850,658,080</u>
Annual Average 1993-2002 <sup>(4)</sup> .....	\$ 13,681,054	\$ 1,609,535,763	\$ 1,785,065,808

(1) Building permit revenues in current dollars. Columns may not add due to rounding.

(2) Potential construction activity estimated by dividing permit revenues by 0.85%, which is the midpoint between permit fees calculated at 0.7% of the first \$100,000 estimated value of development cost, and 1% for the remainder of development cost.

(3) Estimated potential construction activity adjusted to January 2002 constant dollars (CPI-U).

(4) The total estimated potential construction activity adjusted for inflation for the first half of fiscal year 2003 is \$1,060,794,235. The estimated year end figure for 2003 is \$2,121,588,471.

Source: City of Boston Auditing Department and Boston Redevelopment Authority's Policy Development and Research Department.

***Large Public Sector Projects***

Through 2004 the Boston metropolitan area will continue to be the site of several major public sector projects. In addition to the BCEC Project, these projects include two major transportation projects: the depression of the Central Artery, the elevated section of U.S. 93 that runs through downtown Boston and serves as the principle six-lane highway carrying traffic through the City; and the construction of the four-lane Ted Williams Tunnel under Boston Harbor (together, the "Transportation Projects"). The Transportation Projects, which are intended to improve traffic flow, are under the control of the Commonwealth of Massachusetts Turnpike Authority (the "Turnpike Authority").

The first major milestone achieved by the Transportation Projects was the completion of the Ted Williams Tunnel in late 1995, which opened initially for limited use, and was open to all traffic in January 2003 when the U.S. 90 extension under Fort Point Channel was completed. The second major milestone, the Leverett Circle Connector Bridge, opened a week ahead of schedule in October 1999. The four-lane bridge over the Charles River carries traffic between Leverett Circle in downtown Boston and U.S. 93 in Charlestown. The third major milestone was achieved in January 2003 with the completion of the extension of U.S. 90 under Fort Point Channel to South Boston, connecting the highway with the Ted Williams Tunnel and Logan Airport in East Boston. This major interchange in South Boston now will provides direct access from the western suburbs to Logan Airport, as well as to development in the South Boston Waterfront including the new BCEC Project. The Ted Williams Tunnel is expected to carry 88,000 vehicles per day, and this traffic is projected to grow to 94,000 vehicles per day in 2004. Prior to the Transportation Projects the Central Artery's only connection with Logan Airport was via the existing two-lane Sumner and Callahan tunnels, which handled traffic from north, west and south of the City. The remaining construction schedule includes the completion of the northbound Central Artery in March 2003, completion of the southbound Central Artery in February 2004, and total project completion, including demolition of the existing elevated highway and landscaping, in 2005. Construction on the development parcels over the newly-depressed Central Artery, including landscaping and parks, will begin after the Transportation Projects have been completed.

In late August 2002, the Turnpike Authority finalized its annual comprehensive cost and schedule review ("CSU Rev. 9") as stipulated in the Project Partnership Agreement with the Commonwealth and Federal Highway Administration (the "FHWA"). The results of this bottom-to-top review of project costs

were incorporated into the Turnpike Authority's annual finance plan submitted to the FHWA on August 31, 2002 (the "October 2002 Finance Plan"). The Turnpike Authority estimated total project costs to be \$14.63 billion, with no increase over the October 2001 Finance Plan.

The CSU 9 included a contingency account budgeted at \$334.9 million, of which approximately \$62.0 million was allocated for unanticipated risks. As of this date, federal approval of the October 2002 Finance Plan has not been attained. As a result, commencing October 1, 2002, the U.S. Department of Transportation (the "U.S. DOT") is withholding future obligation of federal funds for the Transportation Projects. This withholding of the project funding is not expected to adversely affect cash flow for the Transportation Projects, assuming that federal approval is obtained by August 31, 2003.

The Commonwealth's Executive Office of Administration and Finance engaged an independent auditor to review and evaluate CSU 9, as required for the U.S. DOT's approval of the October 2002 Finance Plan. In its final report dated September 30, 2002, the independent auditor did not recommend an increase to the overall \$14.63 billion budget for the Transportation Projects. The auditor found that a U.S. 90 opening of January 2004, a U.S. 93 northbound opening of March 2003, and U.S. 93 southbound opening of May 2003, are more likely than the projected opening dates stated by the Turnpike Authority in CSU 9.

On July 26, 2002, in connection with its annual budget, review, the FHWA announced its estimate of the total cost for the Transportation Projects to be \$14.46 billion. On July 22, 2002, the Massachusetts State Auditor issued an interim report concluding the CSU 9 projected budget of \$14.63 billion is over funded by approximately \$88.0 million.

The U.S. DOT Office of the Inspector General and the U.S. General Accounting Office have taken the position that monies realized from the resale of property originally purchased with federal funds should retain their federal character and not become state funds. FHWA, which has responsibility for issuing and interpreting regulations on the subject, disagrees with interpretation, and has taken the position that such monies become state funds upon resale of such property.

Massport has developed a long-range capital program of approximately \$3.0 billion for improvements at its facilities, most of which are located in the City. The capital program includes a major modernization of Logan Airport, over half of which is completed, that will include a new double-decked roadway system, a new 3,150 space parking garage, a new public transit terminal, improved walkways, major terminal renovations, a new 600-room hotel, and a new sign system. This capital program also includes non-Logan improvements and privately financed investments at Massport facilities. Massport is currently proposing to build a new runway at Logan Airport to enhance the efficiency of operations and to relieve reported flight delays. This proposal has received both state and federal environment approval. Massport is seeking in state court to lift an existing injunction prohibiting construction of the runway. There is also pending litigation in federal court challenging the environmental approval of the project. In the New England region, capital and operating improvements at the five other regional airports have resulted in capacity upgrading and more efficient usage of air traffic operations.

The Massachusetts Water Resources Authority ("MWRA"), an independent state authority, has recently completed construction of one of the largest wastewater treatment facilities in the nation. This project, which was undertaken pursuant to a federal district court order, was part of MWRA's capital improvement program with a cost of approximately \$3.8 billion (1999 dollars). The project is intended to bring wastewater discharges in Boston Harbor into compliance with federal and state requirements.

The MWRA is planning to spend approximately \$1.4 billion on water and wastewater system improvements over the next ten years. The largest expenditures will be for the Walnut Hill Water Treatment Plant, improved water storage facilities, and reductions in combined sewer overflows. Relatively small portions of these improvements are located within the City, but they should nonetheless provide major improvements in the system infrastructure that serves the City. Projects are funded through state grants and loans and the issuance by MWRA of revenue bonds backed by rates and charges paid by system users. Such rates and charges are expected to continue to increase each year, dictated in large part by increased debt service costs in connection with financing its capital program.

The City is not directly responsible for the costs of any of the above-described projects, although the BWSC, which pays approximately 30% of all MWRA rates and charges, is expected to bear a portion of the cost of the MWRA capital program through increased user fees. The City is currently negotiating with the Commonwealth to receive mitigation payments for any City services (such as fire and police) which may be required to support the Transportation Projects. No such services are expected to be required for MWRA projects.

The Boston Housing Authority (“BHA”) recently completed major revitalization initiatives at two of its public housing developments: Mission Main, in the Mission Hill neighborhood of Boston, and Orchard Park, in Roxbury. The BHA was able to initiate the revitalization of these developments when it was awarded two HOPE VI grants from the U.S. Department of Housing and Urban Development (“HUD”). The grants, totaling \$80 million, were used to implement a new approach to public housing financing, incorporating innovative partnerships with public and private entities that leveraged additional development funds. The initiatives not only revitalized the BHA sites, but the surrounding neighborhoods as well. Moreover, in September 2001, HUD awarded the BHA a \$35 million HOPE VI grant to redevelop the Maverick Gardens housing development in East Boston. The Maverick Gardens HOPE VI award will be supplemented by other public and private financial sources for a total project cost of \$145 million. Trinity East Boston Partners has been tentatively designated the developer of the BHA’s Maverick Gardens housing development in East Boston. The designation came after an extensive public process in which three development teams submitted proposals. The selection committee consisted of two Maverick residents and five BHA staff members. The decision of the selection committee to choose Trinity was unanimous. A grant of \$5 million from the U.S. Department of Housing and Urban Development will allow the redevelopment of a long-time vacant public housing building in Jamaica Plain. The building, located at 80-90 Bickford Street, will become 56 one-bedroom apartments for elderly residents. A joint venture between Haley House and the Madison Park Development Corporation submitted the winning proposal to assume ownership, management and renovation of four BHA properties in the South End. The BHA tentatively designated the partnership as developer and future owner of its properties at 282 Columbus Avenue, 68 West Concord Avenue and 564 and 688 Massachusetts Avenue.

Chapter 152 of the Acts of 1997 (“The Convention Center Act”) authorized the development of the BCEC Project on a 60-acre site in South Boston through the joint efforts of the City, the Commonwealth, the BRA, and the MCCA. The 1.6 million square-foot facility will include approximately 516,000 square feet of contiguous exhibition space on one level, approximately 160,000 square feet of meeting space and a 40,000 square-foot ballroom, as well as banquet and lecture halls. The BRA was authorized by the Convention Center Act to acquire and prepare the site for the BCEC Project. The acquisition of the site is complete, and the required site preparation, including tenant relocation, demolition, and environmental remediation, is also substantially completed. The MCCA is responsible for the design and construction of the BCEC Project, and its operation upon completion. In addition to the BCEC Project, the MCCA is undertaking the development of a large convention center hotel on the northeast corner of the BCEC Project site.

Under the Convention Center Act, all costs of site acquisition and preparation incurred by the BRA for the BCEC Project have been borne by the City up to an initial ceiling of \$157.8 million. All such costs in excess of \$157.8 million and up to \$205 million is being borne by the Commonwealth. If the costs of site acquisition and preparation exceed \$205 million, the Convention Center Act provides that the City and the Commonwealth will share the excess equally up to a maximum of \$50 million (i.e., an additional \$25 million each). All costs of design and construction of the BCEC Project is being funded by the Commonwealth out of bond proceeds supported by the Convention Center Fund established pursuant to the Convention Center Act. The MCCA’s construction budget for the BCEC Project is \$620.5 million (\$607.0 million plus an additional \$13.5 million in interest earnings on the Convention Center Fund balances authorized under Chapter 88 of the Acts of 2001.) The additional funds have been used to fund scope add back/enhancements to the BCEC Project. A guaranteed maximum price (GMP) has been negotiated between the MCCA and the construction manager that includes a deadline for the construction manager that is structured both by financial incentives and penalties, and clearly defines the circumstances under which the financial burden of cost overruns shall be shifted from the MCCA to the construction manager. The BCEC Project is on schedule to be substantially completed in the spring of 2004.

Funding for the BRA's portion of the project was authorized by the City in March 1998. Over a four year period, the BRA has expended \$202.3 million on site acquisition and preparation, with the bulk of the expenditures occurring during fiscal 1999 and fiscal 2000, and with site acquisition the largest cost. As required by the Convention Center Act, the state has reimbursed the BRA for \$44.5 million of this cost. Another \$2.7 million in state funding is available prior to the City sharing in any additional cost. How much the total cost for site acquisition and preparation will exceed \$205 million is primarily dependent on the outcome of eminent domain court cases for those parcels for which a final settlement has not been reached (less than one-quarter of the site acreage). However, the City estimates that the potential liability of the Commonwealth and the City for project costs will not exceed the total amount authorized for site acquisition and preparation in the Convention Center Act.

In addition to the BCEC Project, the MCCA is undertaking the development of a convention center hotel on the northeast corner of the BCEC Project site. After a public bidding process, a team composed of Starwood Hotels and Carpenter & Company was selected in November 1999 to be the operator and developer of the on-site hotel. The developer has signed a development agreement with the MCCA and made a substantial deposit as part of the agreement. A trio of local developers, Stephen Karp, Joseph O'Donnell and Joseph Fallon, have entered into discussions with Starwood Hotels regarding becoming members of the development team. While preliminary work on the hotel project, such as design and permitting, has proceeded, construction was delayed as the developer sought financing for the project. The hotel's financing is expected to be finalized in early 2003.

### ***Empowerment Zone Designation***

In January 1999 part of the City was designated an Empowerment Zone ("EZ") by the U.S. Department of Housing and Urban Development (HUD). The EZ, wholly within Boston, encompasses 5.8 square miles, running north to south right through the center of the City, including parts of the neighborhoods of South Boston, Downtown, the Seaport District, Chinatown, the South End, Mission Hill, Roxbury, Jamaica Plain, and Dorchester. The EZ contains 57,640 residents, roughly 10% of the City's population and contains a variety of businesses from internationally known financial firms and retail stores to industrial uses to neighborhood businesses.

This EZ designation makes Boston eligible to share in proposed federal grants and tax-exempt bonding authority to finance revitalization and job creation programs for 10 years. The ten-year EZ designation brings with it \$130 million in tax-exempt bonding authority for qualified projects. In addition, Boston is eligible to receive \$10 million a year, subject to annual appropriation by Congress, to further the goals of Boston's Strategic Plan which include: economic opportunity and job creation; health and well-being, education and job readiness; community capacity building and technology.

Boston Connects, Inc. (BCI), was established in November 1999 to oversee and implement the Strategic Plan. A 501 (c) 3 organization, BCI has a board of 24 members, 12 appointed by the Mayor and 12 elected from the Zone.

As an Empowerment Zone, a total of \$130.0 million in facility bonds can be issued by the City to support economic development initiatives within the EZ. Pilot Seafood in the Seaport District, The Best Western Roundhouse in Newmarket and the Crosstown Center in Crosstown have all utilized bonds to spearhead investment in the EZ. As a collaborative partner, the bonds have been issued through the City of Boston's Industrial Development Financing Authority.

One example of BCI's commitment to human and economic development has been its investment in Crosstown. BCI loaned \$7.0 million to Crosstown Associates, LLC to assist in the development of a mixed-use commercial development comprised of an approximately 96,500 square feet 175-room hotel, an approximately 60,000 square feet of retail space, and a 650-space parking garage. The project will create approximately 1,100 permanent jobs and 225 construction jobs. Of the estimated 1,100 jobs, approximately 1,000 will be full-time positions. All jobs will include a benefits package. Crosstown Associates, LLC has committed to working with BCI, local community-based organizations, and neighborhoods and residents of the EZ to prepare residents for employment opportunities arising from the Crosstown Center Project through support of training. Crosstown Associates, LLC is further committed to hiring residents of the EZ. This multi-use complex will begin construction in mid 2003 at the corner of Massachusetts Avenue and

Melnea Cass Boulevard. Phase I will include a 190-room hotel, over 15,000 feet of ground-level retail space, and a parking structure. Phase II will include offices and additional parking. The building construction phase will employ approximately 380 workers. When the Center is complete, there will be 1,500 workers in permanent jobs ranging from hospitality to office work. The BCI board has voted to support the use of \$5 million in HUD 108/EDI loans and grants and \$48 million in bonds to the Crosstown Center. In addition the BCI board will invest \$7 million as equity toward the construction of the hotel and garage. The Total Development Cost of the project will be \$70.4 million.

Achievements in human development initiatives are evident. The EZ has invested heavily in providing a continuum of adult education opportunities: English for Speakers of Other Languages (ESOL), Adult Basic Education (ABE), pre Graduate Equivalency Diplomas (GED), GED, work readiness and skills training. Investments have also been made in improving the quality of child care programs; providing affordable after school seats; funding youth Summer employment; and increasing access of Zone residents to technology. These human services goals benefit a wide spectrum of EZ residents.

Businesses in the EZ can access a variety of Tax Credits. The federal government has made both wage and other business tax credits available to EZ companies. Businesses can save money each year in salaries, property and business expenses and use monies to expand operations and increase profits. Businesses interested in locating to the EZ are encouraged to contact BCI offices and the City's Office of Business Development. One of the cross-cutting goals of EZs is to increase the number of job opportunities for EZ residents and these tax incentives work towards achieving this goal. Employee-Related Tax Credits include EZ Employment Wage Credit, Work Opportunity Tax Credit, and Welfare to Work Wage Credit. Business expense related tax incentives are also provided, including accelerated depreciation on purchase of equipment and machinery, reduced capital gains taxes, EZ tax-exempt facility bonds, new markets tax credits, and environmental cleanup cost deduction (Brownfields expensing). Other tax credits include Qualified Zone Academy Bonds (QZABs), Low-Income Housing Tax Credit (LIHTC), and Indian Employment Credit.

Prior to its designation as an EZ, in December 1994, Boston received a HUD Enhanced Enterprise Community ("EEC") designation. As an EEC, Boston could access a total of \$44,000,000 in Economic Development Initiative ("EDI") grants and Section 108 loan guarantees. EDI grants may be used to write down interest rates on Section 108 loans and to establish a loan loss reserve. The EDI funding makes the City eligible for matching Section 108 funds. Section 108 funds can be used (i) as capital improvement loans for commercial or industrial projects that produce jobs, 60% of which are for low and moderate-income residents; or (ii) aid in the prevention or elimination of slums or blight; or meet urgent community needs.

EDI and 108 funds have been instrumental in helping to revitalize neighborhoods and create job opportunities for City residents. Dudley Square has seen the revitalization of Palladio Hall and Fairfield Center. Grove Hall Mecca and La Cocina/Merengue have enlivened Blue Hill Avenue. The South End Health Center provides services to both City and Zone residents. The Laboure Center, which strengthen and enhances the stability of families, has recently expanded its services in South Boston. New Boston Seafood and Pilot Seafood, and North Coast Seafood, have both expanded their operations in the Seaport District. The Roxbury/Crosstown Corridor has seen the construction of Harry Miller Company and the expansion of the Harrison Supply company.

The EEC was also awarded \$3.0 million from Title XX Social Service Block Grant (SSBG) funding to conduct human service programs connecting residents to jobs. Programs included: adult job skills training; adult education, including ESOL, GED, ABE; alternative education for "youth at risk," and expansion of Day Care availability. Finally, EEC designation enables development projects or human service programs impacting the EEC to take advantage of certain tax benefits and priority in other Federal funding programs.

In November 1995, the Boston Empowerment Center ("BEC") was created as a mechanism to provide small businesses with a comprehensive array of financial and technical assistance to help them start and stay in business. The BEC/One Stop Capital Shop, now known as the Business Assistance Center, and managed by the City's Department of Neighborhood Development, provides information and services to support business development. Services include start-up assistance, acquisition, loan packaging assistance,



help with business plan development, access to a wide-range of capital resources, and as assistance with marketing plans, government procurement, international trade, technology transfer, market diversification, and language translation.

BCI's investment in human development is greatly facilitated by the investment in economic development. Construction projects financed through EEC or EZ funds have been instrumental in hiring EZ residents, some of who have been trained by EZ funding. The use of tax incentives has also been instrumental in the hiring of EZ residents and are supportive of EZ businesses.

### ***Office Market and New Development***

The City and its neighborhoods currently has approximately 65.6 million square feet of office space. By the fourth quarter of 2002 (December 31st) Boston's overall vacancy rate according to CB Richard Ellis was 9.7% (16.0% availability when including space to sub-let). Another realty firm, Spaulding & Slye, places the City's office vacancy rate at 9.0%. There is no accepted standard accounting for office vacancy rates so private realty firms surveys vary based upon the amount of office space covered, geographical coverage, and inclusion of new or old office space. Certainly, given the economic slowdown of 2001 office vacancies have risen substantially. Net absorption (rental) of office space in 2002 was -851,932 square feet. In the third quarter, CB Richard Ellis pegged Boston's office vacancy rate at 9.0% which, despite being high, still ranked Boston as the second best downtown office market out of the nation's twenty largest.

In 2000, three office projects were completed: the Seaport Center East office tower, a 475,000 square foot building on the South Boston waterfront; the Renaissance Center, a renovation of a 200,000 square-foot office building near the Ruggles Stop on the Orange Line in Roxbury; and, the Landmark Center reuse project in the Fenway which includes 600,000 square feet of office space. In 2001 and 2002 ten office projects were completed: 10 St. James at the former Greyhound bus terminal site, a 570,000 square-foot building; 111 Huntington Avenue at the Prudential complex, an 874,000 square-foot tower; 303 Congress Street, a 72,000 square-foot renovation; 326 Cambridge Street, a 70,000 square-foot building; Independence Wharf, a 14-story 370,000 square-foot renovation project; 25 Thompson Place, a 94,500 square-foot building; Brighton Landing, a 1 million square-foot mixed use building; 321 Summer Street (88,000 square feet); Seaport Center West, a 575,000 square-foot tower on the South Boston waterfront; and Millennium Place, a 1.4 million square-foot mixed use project between Washington and Tremont Streets that includes offices, hotel, condominiums, and retail.

As of January 2003, six major downtown office projects with 2.8 million square feet of new office space are under construction, and scheduled for completion in the 2003-2004 time period: 131 Dartmouth Street, a 353,000 square-foot tower in the Back Bay; ManuLife Financial, a 14-story, 440,000 square-foot building in the South Boston Waterfront area; One Lincoln Street, a 1,000,000 square-foot tower at the former Kingston-Bedford garage site in the financial district; 33 Arch Street a 533,197 square-foot building (and an 800-space garage); 100 Cambridge Street, a 278,849 square-foot renovation of an existing building; and 226 Causeway Street renovation with 171,610 square feet in the North Station district. In addition, there are four large neighborhood office projects with about 1.4 million square feet of new and renovated office space now under construction: the CANA parcels 2 and 4 in Charlestown, containing 156,000 square feet of office space; Crosstown Center in Roxbury with 282,000 square feet of office space; One Brigham Circle (The Ledge Site) in the Mission Hill section with 117,000 square feet; and Hood Business Park in Charlestown, a 775,000 square-foot renovation.

Several large office projects are in the planning stages for completion beyond 2004. Projects that are BRA Board-approved but not started include: Two Financial Center, a 200,000 square-foot building behind the One Financial Center tower; the Fan Pier project containing 1.2 million square feet of office space; and Midway (Channel Center) a 866,500-square-foot development in South Boston. Beyond that there are now seven pending office developments under review in the Downtown, South Boston, and Charlestown districts with over 3 million square feet of space that will likely become available, if approved, after 2006 at the earliest. The largest one of these is the South Station Air Rights with 1.2 million square feet of office space.

### Boston Office Market—December 31, 2002

<u>Market</u>	<u>Total (SF)</u>	<u>Available (%)</u>	<u>Vacancy (%)</u>	<u>YTD Absorption*</u>	<u>Average Asking Rent</u>
Central Business District .....	33,819,762	18.0%	10.0%	-907,927	\$45.01
Back Bay .....	13,285,830	15.5	8.6	-216,048	\$42.76
South Boston Seaport District.....	4,455,634	21.7	18.4	-73,433	\$33.97
Charlestown/East Boston .....	2,973,272	6.4	4.2	206,074	\$20.93
North Station/Waterfront .....	2,748,936	15.2	7.5	-42,022	\$26.38
Midtown .....	2,420,959	4.0	3.4	-29,272	\$26.28
South Station.....	1,712,519	16.9	13.1	-37,848	\$26.09
Dorchester/South Boston .....	860,987	11.9	9.0	0	\$23.48
Allston/Brighton/Longwood Medical.	3,316,430	8.6	8.6	248,544	\$22.52
Total Boston Office Market .....	65,594,329	16.0	9.7	-851,9332	\$40.86

\* Columns may not add due to rounding.

Source: CB Richard Ellis, Fourth Quarter 2002.

### Comparative Office Vacancy Rates 20 Largest Downtown Office Markets as of September 30, 2002

<u>City</u>	<u>Vacancy Rate</u>	<u>City</u>	<u>Vacancy Rate</u>
Washington DC .....	5.4%	Oakland .....	14.8%
Boston.....	9.0	Manhattan (Downtown) .....	15.0
Manhattan (Midtown).....	9.0	Minneapolis-St. Paul .....	16.0
San Diego .....	9.4	Los Angeles .....	16.2
Houston .....	10.5	San Francisco .....	17.2
Chicago.....	10.8	Atlanta.....	18.6
Philadelphia .....	11.5	Kansas City .....	18.7
Baltimore .....	12.1	Phoenix .....	19.1
Denver .....	13.1	Dallas .....	23.7
Seattle .....	14.6	Detroit .....	25.5
National Average <sup>(1)</sup> 12.9%			

(1) National Average is based on 49 U.S. cities (41 downtowns) from the CB Richard Ellis Office Vacancy Index.

Source: CB Richard Ellis Office Vacancy Index, Third Quarter 2002.

### **Retail Market**

As of 1997, the date of the last U.S. Economic Census, Boston was within the ninth largest metropolitan retail market in the nation, consisting of the City plus the Massachusetts metro areas of Lowell, Lawrence, Salem and Brockton. Of the approximately 10 million square feet of retail space in the City, approximately six million square feet are located in downtown Boston and Back Bay. About 2,262 retail establishments were located in the City in 1997 and had estimated total sales of \$5.6 billion according to the U.S. Census of Retail Trade. According to the U.S. Economic Census for 1992 and 1997 sales increased in Massachusetts, Metropolitan Boston, and the City of Boston. See the table below.

Recent major retail projects in downtown Boston include: TJ Maxx and H&M in the first phase of 33 Arch Street; Eddie Bauer's and Citizen's Bank in the Lafayette Corporate Center in Downtown Crossing; a new CVS at 55 Summer Street; a Walgreen's at Winthrop Square; and a Sports Club/LA and Loew's Boston Common movie theaters at the new Ritz Carlton Towers at Millennium Place. As part of the office and mixed-use projects downtown several new developments such as 33 Arch Street (100,000 square feet) and Fan Pier (135,000 square feet) will have substantial new retail space. In the Back Bay, projects include: renovation work on a new Ralph Lauren store at 93 Newbury Street, the site of the former Kakas Furriers; an addition to Prudential mall (60,000 square feet) at the 111 Huntington Avenue building; and, an Eastern Mountain Sports Store opened on Boylston Street. A variety of smaller retail projects in planned developments downtown are under review. In the Back Bay, the landmark FAO Schwarz Toy Store at 222 Berkeley Street announced, subsequent to the filing of a bankruptcy petition in mid-January 2003, company's that it intended to close pending the company's reorganization. The Lord and Taylor's Department Store on Boylston Street has signed a new long-term lease..

In the neighborhoods, the South Bay Center Mall open 24 hours a day, contains a Home Depot, the first inner-city store for the company, as well as K-Mart, Toys-R-Us, a supermarket and other stores. K-

Mart, however, as part of its ongoing bankruptcy reorganization, has announced plans to close the South Bay store. More recently the new Landmark Center has been completed in the Fenway,, containing roughly 200,000 square feet of retail and theater space. In other neighborhood developments, the Grove Hall Mecca, an inner-city shopping mall, has opened as part of a major Blue Hill Avenue redevelopment. In Roxbury and Dorchester major efforts to redevelop retail business districts in Dudley Square and Grove Hall are showing continuing activity with a super Stop & Shop. A major retail development in the planning stages is the Crosstown commercial complex in the South End, which will have 60,000 square feet of retail space serving the neighborhoods. One Brigham Circle in the Mission Hill/Jamaica Plain neighborhood will have 60,000 square feet of retail space. The two new office buildings in City Square/Charlestown (CANA Parcels 2 and 4) will have 44,000-square feet of store space. These are all solid signs of investment in the inner-city.

There are now 21 neighborhood business districts operating within The Main Streets Program following the addition of the West Roxbury and Jamaica Plain Main Streets. This program is a public-private initiative of the City established in 1995 to revitalize neighborhood commercial districts through locally established organizations. The program had generated, as of the end of December 2002, 444 net new and expanded businesses, created 3,057 net new jobs, and included 263 storefront improvement projects. Through December 2002, the Main Streets Program has also generated \$778,226 in public sector investment in the form of physical improvement grants, which has leveraged an additional \$5.9 million in private investment. Also of importance are the supermarket developments that have taken place throughout Boston's neighborhoods—nine new neighborhood supermarkets have opened in the past five years while two have been expanded. Now under construction are two new Shaw's supermarkets: a 57,000-square-foot store at the Prudential Center, and a 55,000 square-foot store in Dorchester Lower Mills.

**Massachusetts, Metropolitan Boston, and Boston Retail Sales, 1992-1997**  
(In thousands, not adjusted for inflation)<sup>(1)</sup>

	<u>Massachusetts</u>		<u>Metropolitan Boston<sup>(2)</sup></u>		<u>City of Boston</u>	
	<u>Retail Sales</u>	<u>Change</u>	<u>Retail Sales</u>	<u>Change</u>	<u>Retail Sales</u>	<u>Change</u>
1992.....	\$47,663,248		\$27,058,734		\$4,180,888	
1997.....	\$65,847,179		\$39,400,608		\$5,607,981	
	5-Year Change	38.2%	5-Year Change	45.6%	5-Year Change	34.1%

(1) Total retail sales includes the new census definition of retail sales (NAICS) from the series of Retail trade plus the "foodservices and drinking places" category from the series of Accommodation and Food Services.

(2) Metropolitan Boston in this usage is the Boston PMSA as defined in 1992

Source: 1992 data from the 1992 Economic Census for Retail Trade. 1997 data from the 1997 Economic Census for Retail trade for retail) and for the 1997 Census for Accommodations and Foodservices (for foodservices and drinking places)

### ***Industrial Market and Recent Developments***

According to surveys conducted by the BRA, Boston has just over 25 million square feet of industrial space within the City limits. As of January 2000, according to the BRA, over 5.6 million square feet of industrial space was surveyed and the vacancy rate was found to be 22.5%, with almost 1 million square feet unoccupied. The average rent for quality industrial space was estimated to range from \$2.50 to \$19.00 per square-foot (triple net). According to records from the City's Assessing Department, there were 48.3 million square feet of industrial space in 2000, which consisted of manufacturing, warehouse, and research and development.

From 1992–1995, a Cambridge-based biotechnology firm, Genzyme Corporation, constructed an \$85 million biopharmaceutical manufacturing plant in Allston. Genzyme has plans to build further manufacturing, research and development and headquarters facilities on the site during the 2000s.

Certain companies were forced to lay off employees in the mid-1990s because of business strategies and downsizing efforts. Digital Equipment Corporation ("DEC"), for example, closed its Roxbury plant in late 1993, and Stride Rite Corporation closed its plant in Roxbury in 1997. These plant closings have eliminated a total of 350 manufacturing jobs, representing about 1.0% of the City's industrial jobs. In 1995, H.P. Hood decided to consolidate its operations in the suburbs, and closed its Charlestown Plant.

The City purchased the former DEC building in Roxbury in late December 1994. The facility houses the Boston Technology Development Center ("BTDC"). The BTDC opened an Innovation Center operated

by the Massachusetts Biotech Research Institute (“MBRI”). The Innovation Center can be thought of as a “super incubator” which includes four major components: a physical incubator with shared conference and reception facilities; a relationship with venture capital funding; a technology transfer office which helps locate technologies with commercial potential; and a comprehensive education and training program. The MBRI incubator space is currently fully occupied with spin-off firms. The BTDC is providing many benefits both in the neighborhood and citywide, including construction jobs, permanent jobs, education and training programs, public school seminars, youth education, and neighborhood workforce development programs. Over \$20 million in venture capital funding is supporting the new companies that are housed at the BTDC—\$5 million in Federal funds awarded to the project leveraged these private funds. Full occupancy of BTDC was achieved in 1998 with the tenancy of HiQ Computers, which took the final 30,000 square feet for the assembly and repair of computer systems. In 1999 the Crosstown site was planned to be developed into a shopping center and theater complex. HiQ Computers has been relocated, to Boston Marine Industrial Park (“BMIP”). The Boston Empowerment Center (BEC) office and MBRI have been relocated.

There were seven projects completed in the 1995-1997 period: the Advanced Electronics expansion to 110,000 square feet; the expansion of the Boston Freight Terminal in Marine Industrial Park; the American Engineered Components move from Cambridge to Boston; the Zoom Telephonics building doubled in size to 150,000 square feet; Boston Ship Repair’s expanded business in Dry-Dock 3 at BMIP; The Harry Miller Company development of 36,000 square feet of space with assistance in Boston’s EEC; and the completion of the New Boston Seafood Center, housing seven seafood companies in a 70,000 square-foot state-of-the-art facility in the BMIP.

In 2000 there were three major industrial projects completed on the waterfront in South Boston: the International Cargo Port, a 400,000 square-foot warehouse, freight forwarding, and office facility on the South Boston waterfront; North Coast Seafood, a 60,000 square-foot seafood processing facility in the BMIP; and the new Boston Seafood Center, a \$20 million, 150,000 square-foot facility with seven companies as tenants. Also, as of 2003 Pilot Sea Food has a 60,000 square-foot processing plant under construction while Legal Sea Food is also building a 75,000 square foot building.

Other industrial projects are also in motion in 2003 around the City. Mayor Menino announced the Back Streets Initiative, a plan to support and strengthen neighborhood industrial uses. Sprint Corporation recently opened a new 70,000 square-foot data center in Fenway. A \$13.5 million, 78,000 square-foot development by Spire Printing and Graphics Company in the Savin Hill section of Dorchester is complete. In November 2002 EDIC selected Highland Marine Limited Partnership to redevelop a 150,000 square-foot building in BMIP of multi-tenanted industrial use. The renovation of the J. Baker facility in Hyde Park, to include 400,000 square feet of industrial space for lease, is underway. In Dorchester, the Dutch Maid Bakery expansion of 38,000 square feet is nearing completion, while a graphics office at 65 Bay Street with 76,000 square feet of space is under construction. In addition two public storage facilities, one in South Boston and one at 150 McClellan Highway in East Boston are BRA Board-approved.

Cabot, Cabot & Forbes temporarily halted construction of Internet City, a 450,000 square feet project, in Allston and is actively pursuing alternate uses including bio-tech manufacturing. According to a recent study, by Lehman Brothers and Cushman & Wakefield, only 25% of the telecommunications space in the Boston area was actually leased and over 1.1 million square feet of the area’s 2.8 million square feet was not being used. The Boston area ranked with Los Angeles and Miami as the three cities with the most surplus capacity in the telecommunications sector.

### ***Housing Stock, Housing Values, and Development***

The U.S. Bureau of the Census reported on some characteristics of the City’s housing stock in April 2000. The total of 250,863 units grew by 1,072 from 1990, the date of the previous decennial census. The composition of occupied housing has been changing. The number of occupied rental apartments increased between 1990 and 2000, going from 157,920 to 162,302, a gain of 4,382 or 2.8%. The number of owner-occupied units also increased between 1990 and 2000, going from 70,544 to 77,226, a gain of 6,682 or 9.5%. The percentage of owner-/renter-occupied units between 1990 and 2000 went from 30.9%/69.1% to 32.2%/67.8%. With the small addition of new units and the large gain in occupied units the number of vacant units dropped from 22,399 in 1990 to 12,407 in 2000 while the vacancy rate for owner and renter

housing fell from 2.6% and 7.8%, respectively, in 1990 to 1.0% and 3.0%, respectively, in 2000. As of late 2001, the housing vacancy rate was rising slightly.

Condominium units have increased from about 4,500 in 1980 to over 33,000 in 1990, representing 13% of the housing stock. No data on 2000 condominium units is yet released. In 2000, public and publicly assisted housing constituted 17% of the City's housing stock.

Within the City, the U.S. Bureau of the Census reported from the Special Survey in 2000 (C2SS) that the median value of a single-family home was \$216,563 in 2000, the median monthly mortgage payment was \$1,312, and the median contract rent in the City was \$875 per month in 2000. The reason these costs appear to be lower than the rent and sales figures in the tables below is that the Census numbers track what people with existing housing are paying, not including any subsidies that might be involved (for rental housing) and the owner costs are what existing owners are paying. The tables below show what new owners would pay for sales prices and what new renters would pay in rent.

A 2002 study done by the Department of Neighborhood Development showed that the median rent for an apartment in Boston as advertised in the newspapers was \$1,700 per month for a two-bedroom apartment .

**Median Advertised Asking Monthly Rent In Boston Neighborhoods  
And The Volume Of Advertised Two-Bedroom Apartments  
For fiscal 2000 And fiscal 2001**

<u>Neighborhood</u>	<u>Median Rent</u>			<u>Volume of Apartments</u>		
	<u>2000</u>	<u>2001</u>	<u>Percent</u>	<u>2000</u>	<u>2001</u>	<u>Percent</u>
Allston/Brighton .....	\$1,500	\$1,500	0%	233	460	97%
Back Bay/Beacon Hill .....	2,490	2,200	-12	380	570	50
Central .....	1,900	1,900	0	157	247	57
Charlestown .....	1,800	1,800	0	73	199	173
Dorchester .....	1,225	1,300	6	64	65	2
East Boston .....	1,200	1,200	0	20	43	115
Fenway/Kenmore .....	1,775	1,850	4	30	58	93
Hyde Park .....	1,250	1,250	0	21	23	10
Jamaica Plain .....	1,400	1,450	4	93	152	63
Mattapan .....	**	1,250	***	4	11	175
Roslindale .....	1,300	1,300	0	39	84	115
Roxbury .....	1,400	1,350	-4	27	24	-11
South Boston .....	1,400	1,500	7	94	208	121
South End .....	2,200	2,000	-9	161	147	-9
West Roxbury .....	1,400	1,350	-4	61	86	41
Citywide .....	1,700	1,600	-6	1,457	2,377	63

\*\* Less than ten sales so data are not deemed to be reliable.

\*\*\* Not meaningful.

Source: City of Boston, Department of Neighborhood Development using the Boston Sunday Globe, from apartment listings for the first Sunday of the month. Apartments that include utilities or parking in the monthly rent are not represented in this survey. February, 2003.

After nearly five years of relative stability between 1992-1996, home prices have risen at a fast pace since the first quarter of 1996. The National Association of Realtors reported that the median sale price of existing homes in the Boston metropolitan area was \$314,200 for 2000, an 8.3% increase over the 1999 median sales price. The 2001 price of \$356,600 was 13.5% higher than the price for 2000. Between 1996 and 2001 the median price increased by 88%. In 2002, the first two quarters continue to show prices increasing.

**Greater Boston Annual Median Sales Prices For Existing Homes, 1992-2002  
(Current Year Dollars)**

<u>Year</u>	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>	<u>Annual Median</u>	<u>Annual % Change</u>
1992.....	\$168,200	\$173,300	\$175,100	\$165,200	\$171,100	0.6
1993.....	160,500	175,600	176,900	172,700	173,200	1.2
1994.....	170,600	181,300	187,300	176,600	179,300	3.5
1995.....	175,100	179,000	183,200	177,400	179,000	(0.2)
1996.....	197,300	195,300	195,300	177,100	189,300	13.0
1997.....	NA	NA	NA	NA	229,000	21.0
1998.....	NA	NA	NA	NA	258,400	12.8
1999.....	265,000	294,000	301,000	291,000	290,000	12.2
2000.....	303,000	330,300	356,000	329,500	314,200	8.3
2001.....	345,100	356,200	367,300	350,400	356,600	13.5
2002.....	358,800(r)	397,700(p)	NA	NA	NA	NA

Note: Data for the quarters of 1997 and 1998 were not available from the National Association of Realtors or the Greater Boston Real Estate Board, r = revised, p = preliminary.

Source: National Association of Realtors and the Greater Boston Real Estate Board.

Within the City, residential sales prices increased steadily from the beginning of 2000 through mid-year 2002. The median sales price for a single-family home in Boston reached \$285,000 in the second quarter of 2002. Condominium prices have also increased from \$210,000 in the first quarter of 2000 to \$298,760 by the fourth quarter of 2001, a 42% rise.

**Median Residential Sales Prices for Boston  
First Quarter 2000 Through Second Quarter 2002  
(Current Year Dollars)**

<u>Year</u>	<u>Quarter</u>	<u>Single Family</u>	<u>Two Family</u>	<u>Three Family</u>	<u>Condominium</u>
2000.....	First.....	\$195,850	\$213,000	\$225,000	\$210,000
	Second.....	215,000	240,000	237,500	225,000
	Third.....	221,250	270,000	254,500	225,000
	Fourth.....	229,000	258,500	267,000	252,000
2001.....	First.....	237,250	270,000	279,000	239,500
	Second.....	249,000	287,750	282,750	246,000
	Third.....	270,000	305,000	300,000	247,500
	Fourth.....	248,000	287,250	319,000	255,000
2002.....	First.....	270,000	310,000	336,000	275,000
	Second.....	285,000	340,000	360,000	298,760

Source: City of Boston, Department of Neighborhood Development using Banker & Tradesman data, February 2003.

Banker & Tradesman, a local trade journal, reported that during the full year 2001 there were 10.4% less total residential sales in the City than there were in the full year 1999 (7,996 versus 8,862). Sales of single-family homes, multi-family houses, and condominiums all fell in 2001 compared with 2000 for the second consecutive year. Also, for full-year 2001, single-family home sales fell by 3.7% while condominium sales dropped by 7.9% over sales for 2000. Sales of single family homes and condominiums in 2002, however, have begun to increase again as indicated by data for the first eight months. This may be due to declining mortgage interest rates which have made purchasing a home more attractive.

**Annual Residential and Condominium Sales in Boston  
1991-2002**

<u>Year</u>	<u>Single Family Sales</u>	<u>Percent Change</u>	<u>Multi-Fam. Residential Sales <sup>(1)</sup></u>	<u>Percent Change</u>	<u>Total Condominium Sales</u>	<u>Percent Change</u>	<u>Residential and Condo Sales <sup>(2)</sup></u>	<u>Percent Change</u>
1991 .....	908	2.0	1,660	(14.9)	1,995	(8.5)	4,534	(9.1)
1992 .....	1,114	22.7	1,732	4.3	2,479	24.4	5,296	16.8
1993 .....	1,257	12.8	2,129	22.9	2,748	10.9	6,094	15.1
1994 .....	1,602	27.4	2,731	28.3	2,921	6.3	7,180	17.8
1995 .....	1,554	(3.0)	2,775	1.6	2,845	(2.6)	7,110	(1.0)
1996 .....	1,566	0.8	2,875	3.6	3,448	21.2	7,820	10.0
1997 .....	1,623	3.6	3,001	4.4	3,909	13.4	8,460	8.2
1998 .....	1,512	(6.8)	3,046	1.5	4,434	13.4	8,891	5.1
1999 .....	1,573	4.0	3,289	8.0	5,060	14.1	9,849	10.8
2000 .....	1,308	(16.8)	2,956	(10.1)	4,663	(7.8)	8,862	(10.0)
2001 .....	1,260	(3.7)	2,442	(17.4)	4,294	(7.9)	7,996	(10.4)
2001 (8 mo.) ..	982	NA	1,471	NA	2,804	NA	5,396	NA
2002 (8 mo.) ..	1,023	4.2	1,464	(0.4)	3,282	17.0	5,972	10.7

(1) Does not include single-family homes or condominiums.

(2) Equals single-family, multiple-family residential sales plus total condominium sales.

Source: Banker and Tradesman, January , 2003.

Prices and sales volumes for single family homes and for condominiums show strength and remarkable diversity across the neighborhoods of Boston. Areas of the City with the largest numbers of single-family home sales included West Roxbury, Dorchester, Hyde Park and Roslindale. In fiscal 2001 single-family prices ranged from \$184,000 in East Boston to \$478,000 in Jamaica Plain, with the median at \$269,375 and the typical house selling for \$319,000 in West Roxbury, the most suburban-style single family neighborhood within the City limits. Sales were up 7% between fiscal 2001 and fiscal 2002.

**Short Term Trends in Housing Prices  
Median Sales Prices and Sales Volume of Single Family Homes  
In Boston's Neighborhoods, fiscal 2000 and fiscal 2001  
(Not adjusted for inflation)**

<u>Neighborhood</u>	<u>2000 Single Family Price</u>	<u>2001 Single Family Price</u>	<u>Percent Change</u>	<u>2001 Sales Volume</u>	<u>2002 Sales Volume</u>	<u>Percent Change</u>
Allston/Brighton .....	\$289,500	\$360,000	24%	51	58	14%
Back Bay/Beacon Hill ..	**	**	***	4	4	***
Central .....	**	**	***	3	1	***
Charlestown .....	376,175	435,000	16	55	69	25
Dorchester .....	208,000	225,000	8	178	182	2
East Boston .....	145,500	184,000	26	44	50	14
Fenway/Kenmore .....	**	**	***	0	2	***
Hyde Park .....	210,000	242,000	15	168	192	14
Jamaica Plain .....	397,000	478,000	20	76	80	5
Mattapan .....	179,000	190,000	6	77	84	9
Roslindale .....	235,500	280,000	19	147	142	-3
Roxbury .....	161,450	199,950	24	54	44	-19
South Boston .....	235,000	266,750	14	67	74	10
South End .....	667,500	**	***	13	9	***
West Roxbury .....	227,875	319,000	15	249	281	13
Citywide .....	216,000	269,375	25	1,186	1,272	7

\*\* Less than ten sales so data are not deemed to be reliable.

\*\*\* Not meaningful.

Note 1: These prices exempt all sales of properties of less than \$25,000 and greater than \$1,000,000 because the low price sales are not considered to be "arms-length" transactions and the high price sales can distort averages.

Note 2: These are not "paired-sales" so the size, quality and type of houses sold vary from year-to-year.

Note 3: Sales volume eliminates those sales mentioned in note 1 and also eliminate sales for properties that were not able to be accurately "geo-coded" for location so actual neighborhood and city wide totals are higher.

Source: City of Boston, Department of Neighborhood Development, February 2003.

Condominium sales volume and prices also showed strength and diversity across Boston's neighborhoods. The most expensive neighborhoods for condominiums were Central (downtown, including the North End, the West End, and the Waterfront), the Back Bay/Beacon Hill, Charlestown, and South End neighborhoods, which are the core residential pockets of the City. Three neighborhoods still had "affordable" condominiums with the median price below \$150,000. The median citywide condominium price as of fiscal year 2002 was \$273,000, up 19% from the \$229,000 price of the same period in 2000. Sales volume was up by 5%.

**Short Term Trends in Housing Prices**  
**Median Sales Prices and Sales Volume of Condominiums**  
**In Boston's Neighborhoods, fiscal 2000 and fiscal 2001**  
**(Not inflation adjusted)**

<u>Neighborhood</u>	<u>2001 Condominium Price</u>	<u>2002 Condominium Price</u>	<u>Percent Change</u>	<u>2001 Sales Volume</u>	<u>2002 Sales Volume</u>	<u>Percent Change</u>
Allston/Brighton .....	\$160,000	\$195,000	22%	665	529	-20%
Back Bay/Beacon Hill ....	365,000	368,000	1	665	715	8
Central .....	355,000	375,000	6	345	444	29
Charlestown .....	315,000	389,450	24	245	402	64
Dorchester .....	140,000	178,250	27	210	214	2
East Boston .....	119,000	134,500	13	76	64	-16
Fenway/Kenmore .....	193,750	225,000	16	228	227	0
Hyde Park .....	105,000	129,500	23	30	44	47
Jamaica Plain .....	205,000	242,000	18	345	307	-11
Mattapan .....	115,299	197,225	71	19	28	47
Roslindale .....	170,000	214,500	26	123	168	37
Roxbury .....	182,975	199,000	9	66	88	33
South Boston .....	260,000	264,000	2	435	418	-4
South End .....	325,000	377,000	16	596	591	-1
West Roxbury .....	147,000	174,000	18	161	169	5
Citywide .....	229,000	273,000	19	4,209	4,408	5

Note 1: These prices exempt all sales of properties of less than \$25,000 and greater than \$1,000,000 because the low price sales are not considered to be "arms-length" transactions and the high price sales can distort averages.

Note 2: These are not "paired-sales" so the size, quality and type of houses sold vary from year-to-year.

Note 3: Sales volume eliminates those sales mentioned in note 1 and also eliminate sales for properties that were not able to be accurately "geo-coded" for location so actual neighborhood and city wide totals are higher.

Source: City of Boston, Department of Neighborhood Development, February 2003.

The Boston Housing Authority ("BHA") is a public agency that provides subsidized housing to low and moderate income individuals and families. The BHA administers two distinct housing programs. First, the BHA manages a conventional public housing within the City. The BHA manages 64 developments, a few of which have both state and federal components. The BHA owns and manages some scattered-site properties throughout the City as well. Of the 64 developments, 37 are designated as elderly/disabled developments, and 27 are designated as family developments. Three of the 27 family developments have elderly/disabled housing on-site and one of the elderly developments has designated units for families. The BHA currently owns approximately 14,000 units of housing in Boston, and houses about 27,000 people under the public housing program. In addition, the BHA administers approximately 11,000 rental assistance vouchers that allow families to rent in the private market and apply a subsidy to their rent. With this assistance, residents are able to pay approximately 30-40 percent of their income toward rent and the BHA pays the remainder. The BHA helps provide housing to approximately 25,000 people under this program. See "Large Public Sector Projects," below, for information regarding BHA development activity

Housing construction accelerated between 1998 and 2000, and slowed somewhat in 2001. The City permitted 888, 2,008, 2,957, and 2,383 units of new and renovated housing in each of those four years, respectively. Within those totals 381, 651, 1,028, and 919 were "affordable" units. The remainder is considered "market-rate" housing



Downtown and the Back Bay have seen significant residential building in 2000-2002 with several large developments completed, several nearing completion, and still others in the planning stages. Major residential projects recently completed include: Millennium Place (350 units); Trinity Place/25 Huntington Avenue (\$53 million, 21-stories, 102 units); and The Belvedere (11-stories, 65 units). Large housing developments under construction include: 226 Causeway Street in North Station (108 total units, 20 affordable); Colonnade Residences (99 market-rate units); 100 Cambridge Street/Saltonstall Building (75 total units, 19 affordable); Tremont Tower Condominiums (89 market-rate units); Park Plaza Parcel 2 (255 market-rate units); The Metropolitan in Chinatown (251 total units, 115 affordable); and Battery Wharf in the North End (100 market-rate units). Major new residential projects approved in the Downtown area, among others, include Fan Pier (675 total residential units, with 130 being affordable), Liberty Place on Washington Street near Chinatown (439 total units, 44 affordable), 500 Atlantic Avenue (359 total units, 47 affordable), 80 Broad Street in the Financial District (82 units), and Boylston Street in the Back Bay (105 total units, 10 affordable). More in the Downtown and Back Bay are under review.

In addition, residential developments are also occurring in Boston's neighborhoods. Some of the larger or most notable projects are summarized here. In Allston-Brighton the Archdiocese of Boston is redeveloping the former St. John of God Hospital site, 200 total units of which 58 are affordable. Also in Brighton, B'nai Brith is permitted to build an addition with 42 housing units onto its existing Covenant House Elderly Complex, and two other developments with 93 units are BRA Board-approved. In Roxbury, Nazing Court Apartments with 151 units (100% affordable) and three smaller developments with 106 units are under construction. In addition, Nuestra Comunidad is approved to convert the former Hotel Dartmouth into 65 units of mixed-income housing, including six artists' lofts. In Mattapan the Foley Building (with 98 total units, 74 affordable) is under construction while the Harvard Commons development (with 99 total units, 89 affordable) has been approved. In the South End and Bay Village, nine housing developments are under construction. The largest include Rollins Square with 184 units (120 affordable), Parcel 8 (103 market rate units), Parcel 6/Assisted Living (82 units, 54 affordable), Haley House Interfaith Residences (74 affordable units), and Minot Hall (44 total units, 3 affordable). In Dorchester, two developments—Trinity Terrace (62 total units, 59 affordable) and Coffey Street (46 total units, 5 affordable)—are BRA Board-approved. In the Fenway, a mixed use project with 540 units (54 affordable) has been BRA Board-approved. In Jamaica Plain 131 Morton Street, with 62 affordable units, is in under construction. In Roslindale, Sophia Snow House, with 102 affordable units, is BRA Board approved. In Charlestown the Nancy Sales development, with 124 affordable units, is permitted, while the Little Neck Lofts with 146 units, (15 affordable) is BRA Board-approved. In South Boston a few developments are planned or under construction. The Court Square Press Building (132 market-rate units) and 45 West Broadway (44 units, 8 affordable) are being built. Three large developments are approved: D Street Residences (695 total units, 130 affordable); Midway/Channel Center (359 total units, 47 affordable); and the redevelopment of 133 affordable units at West Broadway. More developments in the neighborhoods are under review.

Clearly, the tight housing market of the previous several years has led to the substantial number of housing efforts underway in downtown Boston and in the neighborhoods, with many including "affordable" components.

### ***The Linkage Program***

The City implemented its development linkage program in December 1983, in order to direct some of the benefits of downtown investment to the building of affordable housing in its neighborhoods. Under the program, amended in 1986 and again in November 2001, real estate developers seeking approval of large-scale commercial or institutional developments are required to enter into agreements obligating them to make "linkage payments" in the amount of \$8.62 per square-foot of construction for each square foot over 100,000 square feet. Of this \$8.62 amount, \$1.44 per square-foot goes to the Neighborhood Jobs Trust (NJT) to support job training, and \$7.18 per square-foot goes to the Neighborhood Housing Trust (NHT) to support the development of affordable housing.

Linkage payments into the NHT are amortized over a period of either seven or twelve years, depending on the date of the initial agreement. Under Trust policy, current agreements provide for a seven-year payment period. The seven-member NHT holds public meetings and approves linkage grants to selected projects. A separate category of NHT grants, housing creation, also requires the approval of the

BRA. From the inception of the linkage program through June 2000 \$58.2 million has been awarded to various affordable housing projects.

Based on data through 2002, linkage funding allowed the construction or renovation of 6,566 housing units in 99 projects in the City's neighborhoods. Affordable housing units for low and moderate-income residents comprise 80% (5,320 units) of this total. Of these 99 housing developments created, linkage funds, for the most part, accounted for fewer than 30% of the total development costs of the projects. Only in one instance did linkage funds almost completely fund the project. Linkage money generally is allocated to fund low- and moderate-income housing through the renovation of old buildings and schools, as well as to assist in the creation of new housing. Projects have included rental units, single-room occupancy such as housing for pregnant or homeless women and alcohol recovery programs,, condominiums, housing cooperatives, and home ownership.

Funds for the NJT are derived from linkage fees of \$1.44 per square-foot for every foot in excess of the 100,000 square-foot threshold. This component of linkage came from the 1986 amendment to the legislation and was followed by the creation of the NJT in 1987. Payments are made in two parts, with one half due of the total linkage exaction due when a building permit is issued, with the balance due on the earlier of the one year anniversary of the first payment or the issuance of an occupancy permit for the building. Over the 1988-2002 time period \$11.9 million of funds had been committed, and \$8.2 million of funds have been awarded, resulting in the creation of 93 programs. Services funded under this program include model program designs for entry-level jobs training, school-to-work transition, family literacy, workplace-based education, private sector involvement in the design and delivery of services, and capacity building in impacted communities. The NJT is particularly interested in supporting new and innovative education and training activities which result in high wage employment, new or non-traditional employment opportunities, and community-based projects that respond to specific communities' documented education and training needs. The NJT is committed to providing appropriate services to the residents of neighborhoods where (or adjacent to where) a given development project is located, while ensuring that residents throughout the City have access to new jobs resulting from development. In addition to the \$8.2 million awarded, approximately \$660,000 has been spent on administration, bringing total expenditures from the NJT to nearly \$8.9 million.

**FINANCIAL GUARANTY INSURANCE POLICY**

**MBIA Insurance Corporation  
Armonk, New York 10504**

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

**[PAR]  
[LEGAL NAME OF ISSUE]**

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Insurer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Insurer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

**MBIA Insurance Corporation**

\_\_\_\_\_  
President

Attest:

\_\_\_\_\_  
Assistant Secretary